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GENERAL

SHIJIE ZHISHI Views International Trend Toward Detente

40050092 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 19, 1 Oct 88 pp 4-5

[Article by Chen Qurong 6186 0648 2837, Deputy Director, China Modern International Relations Research Institute: "It Can Be Hoped That the Trend Toward Detente Will Be Maintained, But Promoting Its Advance Will Not Be Easy"]

[Text] Detente in the international situation is the result of joint efforts by the international community and strategic adjustments by several leading nations, such as the United States and the Soviet Union. Detente is both an opportunity and a challenge. Peaceful coexistence and peaceful competition may become the main theme of relations between socialist and capitalist nations.

An important trend in the present international situation is toward substituting dialogue for confrontation, easing the tension of the arms race through disarmament, and resolving military conflicts and international disputes through peaceful means, thereby gradually achieving normalization in international relations.

This Trend Toward Detente Has Taken a Considerable Length of Time To Form, and Is the Result of a Joint Effort by the International Community

Back in the beginning of the 1980's, China adjusted its foreign policy, based on the policy of independence and autonomy and the Five Principles of Peaceful Coexistence. Through joint efforts with the United States, it put Sino-U.S. relations, which had only recently been officially established, on the path of normal and stable development. Through joint consultations with the Soviet Union, it thawed out the long-frozen Sino-Soviet relations, and is gradually developing toward normalization. The positive change in Sino-U.S. and Sino-Soviet relations will undoubtedly play an important role in stabilizing the global strategic situation in the 1980's.

In the first half of the 1980's, amid the serious escalation of the U.S.-Soviet arms race, the nations of Eastern and Western Europe persisted in striving for a "slight relaxation amid great tension." Through frequent dialogue and bilateral contact, they lessened bloc consciousness and hostility, brought Eastern and Western Europe closer together, and prodded the United States and the Soviet Union to choose the path of detente.

Similarly, before U.S.-Soviet relations became flexible, many Third World nations, through the UN and regional cooperation organizations, actively campaigned to check the arms race, mediated to resolve regional conflicts, and made an effort to seek an easing of tensions in the international situation.

Naturally, the final formation of a trend toward detente is inseparable from U.S.-Soviet detente; competition and confrontation between them, after all, affects the whole world. In the mid-1980's, with the emergence of Gorbachev, and as the United States and the Soviet Union began to adjust their domestic and foreign policies, the two nations began substantive dialogues. By the end of 1987, through multilevel and multichannel negotiations and fierce bargaining, the two nations finally signed the first intermediate-range nuclear arms reduction treaty in history, and continued to maintain frequent dialogue on such issues as the reduction of strategic nuclear weapons. They also reached a certain degree of compromise on regional issues. In cooperation with the United States, the Soviet Union is withdrawing its troops from Afghanistan in accordance with the agreement; the United States, with the assistance of the Soviet Union, has helped bring about a ceasefire agreement in the Angola conflict; and on the Middle East and Persian Gulf issues, both nations have adopted a position of restraint. These circumstances show that a trend toward flexibility and detente has appeared in the long-deadlocked U.S.-Soviet relations.

The Trend Toward Detente in the International Situation Formed and Developed Against a Backdrop of Strategic Adjustments Made by Many Leading Nations of the World. These global strategic adjustments appear primarily in the following aspects:

The first is looking forward, focusing on the 21st century. Beginning around the end of the 1970's, many nations of the world in succession have turned their eyes to the 21st century, in order to be alert to the new century's approach. The common questions they have brought up are "Exactly how should we enter the 21st century, as a people, a nation, or a ruling class?" and "What exactly does the new century mean to ourselves or the world?"

The second is looking inward, giving attention to introspection and dealing with domestic problems. Beginning in the second half of the 1970's, many nations in succession have reappraised their own national conditions, national strength, and strategy, and reassessed the international environment in which they exist, their place in the world, and their relationship to other nations. To quote an editorial from the UK's THE ECONOMIST, "Most of the nations of the world have entered a period of introspection," and "Each nation pays attention to its own problems in its own way."

The third is looking at the basis, devoting efforts to economic and scientific and technological development. Many nations, in looking forward to the 21st century, have formulated new economic development strategies and science and technology development programs, and have carried out adjustment and reform of their national political and economic system and national economic structures, thereby setting off a wave of adjustment, reform, and development throughout the whole world.

The fourth is adjusting foreign policy and easing the tense international situation. In order to meet the requirements for the above-stated three changes, many

nations, including hostile nations, have no choice but to adopt a pragmatic stance toward international affairs: acting according to their capabilities, drawing back their overextended battle lines, and making foreign affairs serve internal affairs; reducing conflicts and confrontations, and making political and military affairs serve economic development; and subordinating immediate interests to long-range interests. For many nations, domestic issues have become matters of prime importance.

Global Strategic Adjustment, Development of the Trend Toward Detente, and Other Factors Have Resulted in a Series of Important Changes in World Politics and International Relations.

From the standpoint of politics, whether relations between nations are hostile or friendly, close or distant no longer depends on political systems or ideologies. Although differences and conflicts still exist among different social political systems, they are no longer sharply manifested as life-or-death military confrontations, as they were previously. The Soviet Union's enthusiasm for "world revolution" has, through sober reflection, been gradually supplanted by realism; the "crusader spirit" represented by Reaganism must slowly wither away, because its forces are isolated. Asians need not be troubled at being surrounded, and Westerners need not fear "turning Red." Peaceful coexistence and peaceful competition may become the main themes of relations between socialist and capitalist nations.

In the area of military affairs, signs of demilitarization have already appeared. Since the war, the world has become highly militarized. Although the United States and the Soviet Union have conducted an arms race for several decades, neither one has gained a clear advantage; on the contrary, both have become what President Reagan calls "captives of this competition." Both sides now acknowledge that neither can win the nuclear arms race, nor can either win a nuclear war. A nuclear war cannot be won; and conventional war, too, is hard to fight. Because of the existence of various restricting factors, war can no longer be used today to resolve international problems. In most of the more than twenty local wars and armed conflicts which have been waged in recent years, it is still hard to determine the outcome, even after long years of dispute. This year, several regional conflicts have begun to cool off or implement ceasefires, but this has not been because victory and defeat have been determined militarily. The lessons drawn from the two superpowers and regional hegemonists show that it is hard to raise a nation's international position by relying on developing military strength. The United States and the Soviet Union have unparalleled military strength, but their overall national strength has by no means risen accordingly, and their international influence has, on the contrary, declined. At present, the influence of military strength is declining between East and West, between South and North, and between South and South.

Economy is being reviewed. Economic issues and scientific and technological issues have entered the area of "major political affairs," which has long been monopolized by the issues of military affairs, security, war, and peace, and are gradually occupying the center of the world's stage. Judging from the growth and decline of the relative strength of the world's major powers, the waxing and waning of a nation's strength and the rising and falling of its international position depends on actual overall national strength, its ability to resolve development problems, and its contribution to the world's joint development. Many nations have now shifted the focus of their national strategies to the development of their economies and science and technology. At the same time, with the major development of the internationalization of capital and production, international economic ties are broader, closer, and more crucial to success or failure than ever before. Today's diplomacy not only cannot transcend economic capability, it must also seek economic returns. International economic cooperation and competition often become the main theme of dialogues among diplomats.

The Development of the Trend Toward Detente Cannot Be Smooth Sailing; Detente Itself Also Includes the Element of Challenge

Judging from the above analysis, which emphasizes the macroscopic point of view, the trend of the international situation toward detente has a relatively broad base, a fairly deep strategic background, and an extremely positive influence, and it can be hoped that the trend toward detente will continue to be maintained. However, it will by no means be easy to promote further development of this trend.

The arms race between the United States and the Soviet Union and between East and West is still far from coming to a halt. The further modernization of nuclear weapons, the advancing technology of conventional weapons, and the militarization of outer space all run counter to detente. The long, drawn-out course of the U.S.-Soviet disarmament talks shows that even if both sides need to disarm, they still cannot easily abandon the policy of "preserving oneself and weakening the other side," as if the superiority which cannot be gained in the arms race can instead be gained in arms control talks.

The General Trend Is Toward Implementing Political Solutions for Regional Conflicts. However, these conflicts are often intertwined with various contradictions and involve the interests of many parties. In all of the hot spots which have tended toward political solutions in recent years, the parties involved were deadlocked for a long period before forming detente. Some parties were forced to desist temporarily, while others indulged in the fantasy that they would obtain from the negotiating table what they could not obtain on the battlefield. Some

contradictions are really resolved, while others are temporarily shelved. Unless peace efforts are firmly adhered to and power politics are defeated, "cold ashes may flare up again" at any time.

The focus of international competition has shifted from the area of political and military affairs to the area of economy and science and technology, but this does not entirely imply detente. Since the adjustments, reforms, and international coordination up to now are not yet basic reform of the international economic system, the world economy is seriously out of balance and a trend toward bloc formation has now emerged; moreover, President Reagan has recently signed an "historic," strongly protectionist omnibus trade bill. All of this can only imply the intensification of competition. Some people, in considering the issue of development, start from the logic that "science and technology mean domination—military and political domination." No wonder some in the West say: "Using high technology to develop the economy and military is 'modernized war.'"

The trend toward detente in the international situation is both an opportunity and a challenge. We cannot exclude the possibility that some people will try to make deals, through negotiations and dialogues, that will infringe upon the interests of others, nor can we exclude the possibility that some people will take advantage of the opportunity afforded by detente to rest and build up strength, and prepare to resume hostilities after recuperating. However, the problems posed by detente to different nations are not entirely the same. For China, the biggest challenge posed by detente is whether China can really use the opportunity provided by detente to accomplish the task of reform.

SOVIET UNION

SHIJIE JINGJI DAOBAO on Gorbachev's Pacific Region Proposals

40050090 Shanghai SHIJIE JINGJI DAOBAO in Chinese 17 Oct 88 p 5

[Article by Xiao Wei 2556 0251: "Gorbachev's Trip to Soviet Asia To Discuss Asian Issues After the U.S.-Soviet Summit in Moscow Shows That the Soviet Union's Attention Has Begun To Shift Toward the East"]

[Text] Soviet leader Mikhail Gorbachev gave an important speech at a meeting with local party and government leaders and representatives of the masses in Eastern Siberia's Krasnoyarsk in which he comprehensively set forth the Soviet Union's Asian-Pacific policy and made certain new proposals.

It seems to have become a tradition for Soviet leaders to go to Soviet Asia to discuss Asian issues. Right after Gorbachev gave a speech in Vladivostok on 28 July 1986, the Soviet Union began to revise its Asian-Pacific policy. In comparison, his Krasnoyarsk speech seemed

to be more comprehensive, specific, and realistic. This was a further improvement in the Soviet Union's foreign policy since Gorbachev has been promoting perestroika and shows that the Soviet Union's attention has begun to shift toward the East since the U.S.-Soviet summit in Moscow.

Sino-Soviet relations were a major part of Gorbachev's speech and at least four of his seven proposals concerned China.

The major thrust of the Soviet Union's Asian policy during the Brezhnev era was to contain China militarily and politically. Gorbachev changed this after he came to power. He pointed out emphatically in his Krasnoyarsk speech that the Soviet Union advocates complete normalization of Sino-Soviet relations and plans to start immediate preparations for a Sino-Soviet summit.

China's Premier Li Peng indicated in an interview on 17 September 1988 with AP reporters that if the Soviet Union wants to resolve Far East issues, a Sino-Soviet summit will be placed on the agenda. The foreign press thought that this was China's best reply so far to the Soviet Union in this area.

Gorbachev also made cautious inquiries in his speech about the possibility of developing relations with South Korea. He not only thought that "The general improvement in the situation on the Korean Peninsula could open up the possibility of the Soviet Union establishing economic relations with South Korea," but he also thought that South Korea should be a party to "multilateral talks" on the issue of Asian-Pacific security. A Seoul official told Agence France-Presse that this shows that Gorbachev wants to improve relations with South Korea that the Soviet Union has always refused to recognize. This is actually tantamount to recognizing that South Korea is a country. Certain political analysts in Seoul think that even though formal relations have not yet been established between South Korea and the Soviet Union, Gorbachev's speech has paved the way for South Korean enterprises to move into Siberia.

When discussing Soviet-Japanese relations, Gorbachev evaded the issue of Japan's northern territory and boldly discussed improving relations as if he was not fully aware of it. Former U.S. Secretary of State Kissinger felt that the major consideration of Japan's Soviet policy was how to settle the issues of the Soviet Union's occupation of Japan's northern territory and its military threat. Although Japanese foreign affairs figures welcomed Gorbachev's speech, they felt that it lacked any specific actions. If the Soviet Union has actually revised its Asian policy, in addition to improving Sino-Soviet relations, it must also stop turning a deaf ear to demands by countries such as Japan.

Gorbachev's seven proposals on "improving Asian-Pacific security" were basically the same as those in his Vladivostok speech, but several points gave much food

for thought: 1. Even though he was fully aware that the talks between the U.S. and the Philippines on U.S. military bases were deadlocked, Gorbachev still proposed that the Soviet Union give up its bases in Cam Ranh Bay, Vietnam in exchange for the U.S. giving up its bases in the Philippines. This could truly be called killing two birds with one stone, since it would give him both a propaganda advantage and also a rationale for the continued Soviet occupation of Cam Ranh Bay; 2. The calls in Gorbachev's speech for China together with the U.S. and the Soviet Union not to deploy additional nuclear weapons in the Asian-Pacific region, not to expand naval forces, and to take part in Asian-Pacific security talks are apparently impartial but actually are not. These proposals could both involve China in certain Asian-Pacific region military control talks led by the Soviet Union and the U.S. and also restrict the growth of China's military forces which are nowhere near the military strength of the Soviet Union and the U.S. These proposals are obviously not impartial.

NORTHEAST ASIA

Takeshita's Active Foreign Policy

40050098 Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese
No 4, 13 Oct 88 pp 19-24

[Article by Lu Guozhong 7120 0948 1813: "The 'Takeshita Touch' of Japan's New Foreign Policy"]

[Text] Since its establishment, the Takeshita Administration has been very active on the international stage and achieved some results, giving Japanese diplomacy a "Takeshita" touch. This shows that Japan is beginning to adjust its diplomatic strategy in a number of ways in order to play a larger role in the world and speed up its becoming a world power. Nevertheless, Japanese diplomacy also faces a number of problems, such as the impasse in Soviet-Japanese relations, new economic frictions with the U.S., and aid for economic development in the Third World.

Before Takeshita became prime minister, Japan was embroiled in economic conflicts with many countries. "Japan bashing" was commonplace and the country was in an isolated position. How was Takeshita, who had no foreign policy experience, going to tackle the numerous foreign policy problems inherited from the previous administration and free Japan from its passive situation in the world? That was the concern at home and abroad. At the time, many people expected Takeshita, a foreign policy novice, to merely follow the policies and approaches of the Nakasone Administration without innovating. Today, almost 1 year after Takeshita took office, have such expectations been borne out? What is his foreign policy record? How has Japanese foreign policy changed? This article proposes to provide a preliminary answer to these questions.

1. Active, Robust Diplomacy

Contrary to popular expectations, the Takeshita Administration has been very active on the international stage since its inception, with some successes. During the past year, the Takeshita Administration has achieved notably the following goals in the field of foreign affairs:

1) Resolved four major outstanding issues in U.S.-Japanese relations and eased bilateral economic friction.

Before Takeshita came into office, U.S.-Japanese relations were fraught with economic conflicts. The two nations were then negotiating to liberalize Japan's restrictions on agricultural imports, open up Japan's construction market, and revise the U.S.-Japanese scientific and technical agreement. In the latter days of the Nakasone Administration, foot-dragging by Japan had provoked American displeasure, casting a shadow over bilateral relations. Settling these outstanding issues, therefore, was a major test facing the new administration. Upon assuming the duties of the prime minister, Takeshita made repairing U.S.-Japan relations his "top priority" and worked hard to resolve the economic conflicts with U.S. first and foremost. After hammering out a consensus at home, the Japanese government opened tough negotiations with the U.S. The results were a revised U.S.-Japanese scientific and technical agreement and an agreement to open up the construction market, both concluded at the end of March this year, an accord reached on 20 June to liberalize the import of beef and citrus fruits, and another agreement easing restrictions on 12 types of agricultural imports. In the process, economic tension was defused and a major irritant in bilateral relations was removed. The U.S. and Japan succeeded in resolving these issues one after another within a short period of time because both countries, prompted by larger considerations, made concessions. But this success was inseparable from Takeshita's eagerness to resolve the issues. He has been praised by America as an "internationally-minded leader."

2) Frequent trips overseas to improve and strengthen relations with a number of countries. Less than a year after becoming prime minister, Takeshita has visited a total of 13 countries, including three trips to the U.S., where he met with President Reagan on each occasion, and two trips each to Western Europe, Canada, and South Korea. In addition he attended a meeting of the heads of government of member nations of the Association of Southeast Asian Nations [ASEAN]; a special disarmament conference of the United Nations; and the economic summit of seven Western nations. He also has visited Australia and China. He has met with the leaders of almost every nation with whom Japan has close ties and established "close personal ties" with them. Meanwhile, the Japanese foreign minister, other government officials, and leaders of the Liberal Democratic Party have also been busy traveling to Southeast Asia, the Middle East, Africa, and Latin America. Because of this

flurry of diplomatic activities, Japanese relations with Asia, Western Europe, and some Middle Eastern nations have markedly improved and strengthened.

Prime Minister Takeshita has emphasized that "maintaining and furthering friendly relations with China is an important pillar of Japan's foreign policy" and indicated that "the Japanese government will do its best to cooperate with China in its modernization." He has made great efforts to improve friendly relations and cooperation between the two nations. On the 10th anniversary of the signing of the Sino-Japanese Treaty of Peace and Friendship in the second half of August, he visited China and held frank talks with Chinese leaders, promoting mutual understanding and goodwill. The success of this visit will do much to cement bilateral ties in the future. Foreign Minister Sosuke Uno and other high-ranking officials also have made fruitful trips to China. Prime Minister Takeshita decided not to visit the Yasukuni Shrine and dealt with Okuno's attempts to deny that Japan was an aggressor in World War II. New progress has been made in Sino-Japanese economic cooperation in recent years. The Japanese government decided to extend to China the third batch of loans in Japanese yen and worked hard to ease restrictions on Chinese exports. Sino-Japanese trade has developed in a gratifying way in that China's trade deficit has been reduced substantially. The two countries signed an investment protection agreement last August, which should encourage Japanese industry to invest in China. All this represents a significant improvement over Sino-Japanese relations a year ago when incidents such as the Kokorio case had created much disharmony.

3) Diligently putting forward many ideas and suggestions to change Japan's international image. Soon after he took office, Takeshita advanced the slogan "Japan must contribute to the world." During his Western European tour in early May, he enunciated Japan's "international cooperation blueprint" in Britain, the thrust of which was to: A) strengthen cooperation for peace; B) promote international cultural exchange; and C) expand government developmental assistance. In early June, Takeshita unveiled five specific policies to further cooperation for peace at the UN special disarmament conference and proposed that a nuclear testing verification conference be held in Japan. In mid-June, on the eve of the economic summit of the seven Western nations, the Japanese government announced that it would forgive the \$8 billion owed to it by the world's 20 poorest nations and that it would double the amount of government foreign economic assistance in the next 5 years to \$50 billion. At the economic summit of the seven Western nations this year, Takeshita, as representative of the only participant from Asia, strongly urged the West to support Prince Norodom Sihanouk, aid the Philippines, and ensure the success of the Olympic Games in Seoul. Finance Minister Miyazawa also proposed a "debt relief plan" at the finance ministers' meeting. As a result of these positive moves, Japan was generally praised at the economic summit this year, instead of being criticized at

every turn as in the past. In early July, Foreign Minister Uno announced a plan to resolve the Cambodian issue at an enlarged meeting of ASEAN foreign ministers. Japan also has been pushing for the establishment of a new cooperative organization in the Asian Pacific region, as by upgrading the Pacific Economic Cooperative Council into an inter-governmental policy coordination body similar to the Organization of Economic Cooperation and Development [OECD], and the creation of a "Pacific economic cultural cooperation forum." This flurry of ideas and initiatives in the area of foreign policy within a short period of time is unique in Japan's diplomatic history. They should help change Japan's international image as an "economic animal."

2. The "Takeshita Touch" in Japan's Foreign Policy

The spectacular changes in Japan's foreign policy in the past year show that even as he basically continues the foreign policy goals of his predecessor, Takeshita has made innovations and breakthroughs, giving Japan's foreign policy a "Takeshita touch," which is mainly manifested in the following ways:

1) He launched a diplomatic offensive aimed at the Soviet Union and internationalized the northern territories issue. In the past, Japan regarded its territorial dispute with the Soviet Union as a bilateral issue and did not seek international involvement. In a break with past policy, the Takeshita Administration has energetically lobbied for support from U.S. and its other Western European allies. In response to Japanese requests, President Reagan brought up the subject during the U.S.-Soviet summit in May, as did the British foreign minister when he met with Soviet Foreign Minister Eduard Shevardnadze in February. At the seven-nation economic summit this year, Takeshita took a different attitude toward the Soviet Union from that of other nations. On the one hand, he emphasized that "the Soviet threat in the Far East has not disappeared," was lukewarm in his appraisal of Soviet reform, and called for caution in dealing with Moscow. On the other hand, he again sought support from the West on the territorial issue. Japan's aim was to launch a "diplomatic offensive toward the Soviet Union and turn the Soviet-Japanese territorial dispute into a problem in East-West relations so as to bring international opinion to bear on the Soviet Union and pressure it into returning the four northern islands."

2) For the first time, a Japanese foreign minister visited Israel, marking the beginning of Japan's adjustment of its Middle Eastern policy. Fearful that the Arab nations would cut off oil supplies, Japan has consistently been pro-Arab and pursued a low-key policy toward Israel ever since the "oil crisis" of 1973. On 26 June, Foreign Minister Uno paid a visit to Israel, the first time a high-ranking Japanese official visited that nation since the war. Anxious about how the Arab nations would react, the Japanese government emphasized that "Japan's Middle Eastern policy would not change."

During his visit, Uno told the Israelis that Japan supported "Palestinian self-determination" and urged Israel to take a "flexible approach toward peace in the Middle East." He also visited Palestinian refugee camps and donated funds to the refugees. Uno's visit attracted international attention. There was no doubt but that it signaled the beginning of the adjustment of Japan's Middle Eastern policy in a major way. Prime Minister Shamir of Israel described Uno's trip as "ushering in a new era in bilateral relations." The Japanese media also noted that the visit "has enabled Japan to break with past dependence on Arab nations" and "opened a new chapter in Japan's Middle Eastern diplomacy." The policy adjustment was prompted by what Japan considered an opportune moment. In recent years, the situation in the region has changed radically. No longer does Japan have to worry about the sources of oil supply, while Arab nations are becoming increasingly dependent on Japan economically. With an impartial policy toward the Arab nations and Israel, Japan hopes, it can "maintain channels of communication with and pass on messages" to both sides and "play a special role for peace in the Middle East."

3) The director general of Japan's Defense Agency has visited Southeast Asia, the first by the head of that agency, thus adding a military dimension to Japan's relations with ASEAN. Owing to historical Japanese aggression, Southeast Asian nations are leery of Japan reverting to militarism and had few military ties with it in the past. Japan too has been at pains to avoid this sensitive issue in its close dealings with Southeast Asian countries thus far. Never had the head of the Defense Agency of Japan visited Southeast Asia—until Director General Kawara, overcoming such misgivings, made a trip to Indonesia and Singapore in late June and early July this year. During his visit, Kawara explained to his hosts Japan's defense policy and repeatedly reassured them that Japan would never "become a military power," reassurances aimed at dispelling doubts raised in ASEAN by Japan's decision to boost military armaments and spending significantly in recent years. Kawara also stressed the Soviet military threat in the Far East and the need to ensure safe passage for shipping through the Strait of Malacca and the Strait of Longmu. His aim was to extend cooperation with ASEAN to the military sphere and adopt a joint position toward the Soviet Union. In a way Kawara's visit was a success. Prime Minister Lee Kuan Yew said that "Kawara's visit marks the beginning of a thaw in Japan's military relations with ASEAN," noting also "the need to further the exchange of military personnel in the future." ASEAN nations' receptiveness to Kawara's visit indicated a change in their attitude toward the development of a military relationship with Japan. Nevertheless, both Indonesia and Singapore have stressed that they hope Japan would not assume the military role of the U.S., a sign that doubts and wariness about Japan still run deep in

ASEAN. At the conclusion of his trip, Kawara also said that Japan must begin by "reexamining World War II if there is to be a real thaw in military relations between ASEAN and Japan."

3. The Adjustment of Japanese Diplomacy

The Takeshita Administration's active diplomacy and his personal touch all indicate that Japan is beginning to overhaul its strategy in order to be more politically effective internationally and speed up its ascent to the status of a political power. The most obvious signs of the policy adjustment are as follows:

1) Reducing dependence on the U.S., strengthening Japanese-European relations, and emphasizing the development of ties with Asian nations. The U.S.-Japanese alliance was a critical external prerequisite for Japan's rapid economic recovery after the war. Today, the U.S. and Japan have become even more interdependent economically, politically, and militarily. In recent years, almost 40 percent of Japan's exports and 44 percent of its direct investment are destined for the U.S., while 40 percent of the securities issued by the U.S. government are purchased by Japan. Thus, U.S.-Japanese relations are still the "cornerstone of Japan's foreign policy." But Japan believes that the steady decline in American power and the endless succession of economic conflicts between the two nations in recent years mean that should Japan continue its one-sided tilt toward the U.S., its economic growth would be hemmed in and the development of a broad-based Japanese foreign policy would be impeded. To put an end to its over-reliance on the U.S., Japan is trying to lessen its dependence on the American market, while increasing and expanding its relations with Asia and Western Europe. The Ministry of International Trade and Industry is in the process of "modifying its trade policy, which is excessively dependent on the U.S." The Foreign Ministry has decided to strengthen its political dialogue with Western Europe beginning this year and held consultations with Britain, France, and the Federal Republic of Germany at the deputy foreign ministerial level. Since he became prime minister, Takeshita has been busy visiting major Western European nations even as he made great efforts to resolve outstanding economic disputes with the U.S. Japan regards Takeshita's trips to Western Europe as "bringing about a new era in Japanese-European relations and establishing an equilateral triangular relationship" among Japan, the U.S., and Europe. This is considered an improvement upon the situation in which Japanese-European relations lagged behind those between the U.S. and Japan and between the U.S. and Europe. Japan's strategic adjustment is paying off.

Historically, Japan has had relatively close ties with Asian nations and regions, including ASEAN, the "four little dragons," and China. In recent years, to end the over-concentration of its exports and investment in America and also to get around the problem of rising

production costs resulting from the appreciation of the yen, Japan has increased investment, trade, and technology transfer with Asia. In 1987, Japanese investment in ASEAN and the "four little dragons" went up 87 and 94 percent, respectively. Its exports to and imports from ASEAN and the "four little dragons" grew 30 and 32 percent, respectively. The Takeshita Administration has said that it would follow a foreign policy in which Asia would be a "priority." His first visit abroad was to attend the meeting of heads of government of ASEAN nations in Manila in December 1987. In his address to that gathering, he characterized ASEAN as "Japan's natural ally" and suggested that "a pillar of Japan's foreign policy was to strengthen the friendly cooperative relations with ASEAN nations." Foreign Minister Uno also visited ASEAN nations in May and July and attended an enlarged meeting of the foreign ministers of ASEAN, where he emphasized Japan's "resolve to make significant contributions to Asia and the Pacific region through non-military means." After Rho Tae Woo came into power in South Korea, Japan has stepped up its work there, with Takeshita paying two visits this year and frequent contacts and consultations between high-ranking Japanese and South Korean officials. Both politically and economically Japanese-Korean relations have become more intimate. Since the beginning of this year, an eye-catching role Japan has taken up is that of the advocate of the "four little dragons," mediating their economic quarrels with Europe and America and encouraging them to engage in a dialogue. Furthermore, many times this year Japan has called for the establishment of a new cooperative organization in the Asian Pacific region and the convening of an Asian Pacific conference. Clearly these diplomatic moves by the Takeshita Administration and the development of Japan's economic and political ties with Asian nations have much to do with the adjustment of Japan's foreign strategy.

2) Getting involved in regional conflicts and striving to achieve a stronger voice in regional hot spots. As an economic superpower, Japan has traditionally been more concerned to play an economic role in the world, while merely supporting the position of America or other nations concerned on political issues, including regional conflicts. Rarely did it put forward its own proposal or plan. When the UN despatches peace-keeping troops or creates supervisory organs in a trouble spot, Japan's support for such actions has merely been financial; never did it send personnel. It is Japan's belief today that this inactive, passive attitude has "prevented it from playing a political role commensurate with its superpower status." In a departure from past policy, the Takeshita Administration has issued an "international cooperation blueprint" embodying a new "Japanese foreign policy." One proposal calls for more cooperation for peace, indicating that Japan is ready to play an active part in regional conflicts and do more to resolve regional problems. After Afghanistan and Pakistan concluded an agreement to solve the Afghan problem, Japan decided to send civilian personnel to participate in the UN

"mediation commission" to be stationed in Afghanistan, the first time Japan has done so, and to offer \$200 million to aid UN peace-keeping efforts and refugee repatriation, the largest amount pledged by any nation. The Takeshita Administration has been particularly tireless in its efforts to work out the Cambodian issue. Takeshita first made clear Japan's support for the peace efforts of Sihanouk at the ASEAN summit in December last year. At the summit of the seven Western powers this year, Takeshita again appealed to all nations to support Sihanouk and passed on the latter's oral message urging Vietnam to withdraw its troops. At the enlarged meeting of ASEAN foreign ministers last July, Japan for the first time put forward a plan to resolve the Cambodian problem and expressed a willingness to provide funds to cover the expenses of a UN peace-keeping international force to be stationed in Cambodia and to send civilian personnel to supervise elections in that nation. In August, Sihanouk was invited to visit Japan. Meeting with Sihanouk, Takeshita emphasized that "the Cambodian issue cannot be settled peacefully without Sihanouk." These positive actions on Japan's part have won the praise of Sihanouk who said that "Japan has a pivotal role to play in resolving the Cambodian issue" and that "we will maintain close contacts with Japan in the future." Japan's approaches to the Arab-Israeli conflict and the dispute between Iran and Iraq also have changed. In a break with Japan's traditional inactive position, Foreign Minister Uno visited Syria, Jordan, Egypt, and Israel in late June to "listen to opinions," "explain Japan's position on the Middle East," and "explore what role it can play for peace in the region." After Iran and Iraq agreed to a cease-fire arranged through the mediation of the UN secretary general last August, Japan decided to send Foreign Ministry officials to be part of the UN cease-fire inspection team and defray part of its expenses. As a sign of its positive attitude, it also indicated that it would provide assistance and send experts to help economic rebuilding in Iran and Iraq.

In short, Japan's active involvement in and efforts to resolve regional conflicts in Asia and the Middle East in the past year were all prompted by a desire to raise Japan's international status and play a more important political role.

4. Foreign Policy Issues Facing Takeshita

Takeshita has had solid diplomatic achievements since coming into power. However, whether or not he can match or better the record of his predecessor in the next few years depends on his ability to resolve some foreign policy issues facing Japan:

1) Ending the impasse in Soviet-Japanese relations, which have been deadlocked over the northern territories dispute. Ending the impasse has been the "sole diplomatic issue remaining from the war" that Takeshita's several predecessors had hoped to achieve.

The Takeshita Administration is banking on Gorbachev's new thinking in foreign policy to soften the Soviet position on this matter. Recently Japan launched a diplomatic offensive aimed at the Soviet Union in an attempt to induce such a change in Soviet position by marshalling the force of international opinion to bear on Moscow. While the Soviet Union has stuck to its original position on the territorial issue, its rhetoric has changed somewhat. It is worth noting that in recent years Soviet scholars have put forward a succession of proposals to resolve the matter, including those who suggest that "the national boundaries be re-drawn," that "two islands be returned," that "the Soviet Union and Japan administer joint control," and that "two islands be returned and put under joint control," all of which have been rejected by Japan. Because both Japan and the Soviet Union need to improve bilateral relations, it is entirely possible that they would reach some kind of compromise on the biggest hurdle to better bilateral relations in the future. According to the Japanese media, contacts and explorations between Japan and the Soviet Union are under way at all levels right now. Should Takeshita succeed in breaking the deadlock in Soviet-Japanese relations, "his name would go down in history."

2) Can he satisfactorily resolve the endless U.S.-Japanese economic disputes coming in close succession? Economic tension between the two nations has subsided somewhat following the settlement of the four outstanding cases. But soon after the accords were signed, some American officials let it be known that the next U.S. target was the "liberalization of Japan's rice import policy" and that "in the future the U.S. would compel Japan to change its policy on circulatory organizations, agriculture, and anti-monopoly." In August the U.S. Congress passed a protectionist trade bill aimed at Japan. All this suggests that new conflicts are in the making between Japan and the U.S. How to deal with them is another critical test facing Takeshita.

3) Can he do something to really benefit economic development in Third World nations? Both the Takeshita Administration and its predecessor have pledged in recent years to expand government assistance, reverse the flow of funds, open up the domestic market, and provide technical assistance to many Third World nations. These are nice promises and all nations are now watching Japan very closely to see how Takeshita plans to live up to them. If Japan discards its old "money first" mentality and gives up its practice of using foreign aid and investment to open the way for a flow of Japanese exports and as a stepping stone to taking over others' market, if Japan replaces its concern to garner a reputation with a genuine desire to do something practical to help economic revitalization and development in developing nations, as it has professed to do, it would shore up Japan's fragile diplomatic position in the Third World as well as vastly improve its international image and elevate its international status. To succeed in this area, Takeshita needs vision and resolve and must overcome many obstacles.

SOUTHEAST ASIA/PACIFIC

Reform Modernization, Democratization Seen Long-Term Asia-Pacific Trend

40050096 Shanghai SHIJIE JINGJI DAOBAO in Chinese 14 Nov 88 p 4

[Article by Yu Xiaoqiu 0205 2556 4428 of the China Modern International Relations Research Institute: "Asia-Pacific Region Is Entering an Age of Transformation. Modernization, Reform, Openness Democratization, Development and Cooperation Are Gradually Becoming the Leading Current of Thought in Asia-Pacific Countries—a New Mechanism That Will Promote and Protect the Peace and Cooperation of This Region"]

[Text] Since the 1980's, Asia-Pacific countries and regions have been engaging in a new transformation to democracy. This manifests itself primarily in two ways: the first are transformations in the structure of the relationship in each country in domestic economy, the government and the society; the second is the transformation in the relationship among countries in each region and area. These two aspects of reform are extremely profound, and looking from any number of perspectives, they are of a fundamental nature. The former promotes modern thinking and a broad range of changes and gradual development in these countries. The latter creates a trend towards mutual existence and strengthened cooperation between countries and within regions.

In economics, some of the main countries and areas in this region, such as Japan, the "four little dragons" and China, have in recent years attained growth rates that are consistently among the fastest in the world, showed the fastest trade growth around the globe and gradually formed an economic structure that would promote a region-oriented development of an international economic trade. The rapid and prosperous development of these Asian countries mainly benefits the policy of economic openness in the region, making it suitable as a strategy of economic development for the changing international economic conditions and the region's. The rapid development in these Asian countries is conducive in readjusting the domestic economic and enterprise structures and in bringing closely together the domestic economies in these countries and the world economy so as to promote a continued effort in their own development. Among the developing countries and regions, these Asian countries and areas are most advanced, and they will act as an extremely strong motivator for the development and creation of the economy of this region and even of the whole globe, making it possible that the 21st century will likely be the century of Asia-Pacific region.

In government, "Democratization" is in the process of becoming a normal trend, and political participation in government are also gradually expanding. Even though

this type of transformation of politics will certainly initially include some instability and uncertainty, the direction of the transformation brings with it more stability and progress. The main reason for this transformation is mainly because of the development of the country's domestic economy, the influence of western democratic thinking and the changes of leaders and their thinking. Presently, the development of "political democratization" of some these Asian countries has had some success. This has provided some beneficial experience for the political modernization of other developing countries.

In the social and culture arena, the thinking of modernization is gradually being accepted by people. However, "westernization" has not become the goal that these Asian countries and area are striving for. While following the path towards modernization, "local culture" and "eastern consciousness" should correspondingly be strengthened. Some scholars attributed the social economic growth of some of these countries in the Asia-Pacific region to the effect of Confucian culture. This is to say that the thinking on modernization and the local culture should be developed simultaneously and correspondingly, making them the mainstay of social thought, and the harbinger of a "common-body" consciousness in these countries thereby gradually diminishing and weakening the consciousness of "westernization" or "radicalization."

The appearance of this new era of transformation is due primarily to several factors: first, the effect of the mass media communication. Second, The awareness of

"contrast" that is gradually becoming stronger, the dominant attitude of becoming "practical," and the importance of economics and wealth in society and in individuals' lives have become outstanding. Third, the crisis of domestic politics and economic structure. Fourth, the the diametrically opposed international environment that is stable, and tension and conflicts among nations have relaxed. In addition, it is very important that these countries can, in a timely fashion, completely utilize the beneficial international economic conditions taking the advantage of using this opportunity to develop their own economies. Fifth, the active promotion of a determined policy of openness by the intellectuals, and the sudden appearance of a generation that advocates "govern by expertise." These are crucial elements that push forward the transformation of the society. These are also the conditions that preface the modernization of politics and society.

The above-mentioned five elements are perhaps the basic requirement for the modernization of a society and, at a certain level, have global implications. Today, "modernization," "reform," "openness," "democracy," "development" and "cooperation" have gradually become the main guiding thought in the societies of the Asian countries in the Pacific region. This main guiding thought will constitute the new mechanism to promote and safeguard the peace and cooperation in this region. This new transformation of an era will, in the future, be beneficial for the healthy development of this region's international relations and the close cooperation of these countries. These Asian countries and areas in the Pacific region will also open up a new path for other developing countries and areas.

Deng Sends Goodwill Messages to Intellectuals
40050124 Hong Kong CHING PAO [THE MIRROR] in
Chinese No 11, 10 Nov 88 pp 20-23

[Article by Fan Yun-huai 5400 0061 2037: "Mainland Reform Has Yet To Find A Way Out; the Revered Mr Deng Again Beckons to Intellectuals"]

[Text] The Xinhua News Agency recently published the report delivered by Zhao Ziyang, General Secretary of the CPC Central Committee, on 26 September at the Third Plenary Session of the 13th CPC Central Committee. In the report, Zhao Ziyang admitted that "it was late to discover and remedy the problem" in economic clean-up. As a matter of fact, Zhao Ziyang already claimed responsibility for such economic problems as inflation and overheated growth in his speech at the CPC Central Committee Meeting, which was held from 15 to 21 September. He said: problems such as overheated growth and overextended scale of capital construction were revealed in 1985 and some measures were taken, but in order to maintain the momentum of economic growth, we did not make great resolution to solve these problems and failed, particularly, to watch out for the expansion of the extra-budgetary capital construction. In the beginning of this year, we overemphasized the better side of the development and overlooked the fact that the aggregate demand of society had excessively expanded. Had we made up our mind to remedy it and take some measures at that time, the situation would not have deteriorated as such today. Zhao Ziyang also made self-criticism concerning the fact that he had hastily called on the nation to take part in the great international economic cycle. This speech of Zhao Ziyang was allegedly drafted at Deng Xiaoping's suggestion.

Deng Calls a High-Level Meeting for Reorientation

On 12 September, Deng Xiaoping called the five standing committee members of the CPC's Politburo, and Wan Li and Bo Yibo to a special meeting to discuss ways to shelve the implementation plans of price and wage reforms and shift the focus of work to "improve economic environment and rectify economic order." Deng Xiaoping's speech at this "brief meeting" of high-ranking officials covered a wide range of issues. In addition to the contents revealed in the October issue of CHING PAO, some noteworthy issues are as follows:

1. The need to consider the situation as a whole and submit local interests to national interests. Deng Xiaoping said that we may take back some of the powers we delegated a few years ago. To tighten overall control, some administrative and disciplinary measures still need to be used.

2. The key to the economic development of South Korea is allowing over 100 experts and scholars to play their roles and that from now on China should also consider improving some experts' and scholars' living and working conditions and allowing them to play their roles in

the economic development of China. Deng said: we should consider increasing education funds and change the situation of insufficient educational investment in the future. We should try to draw those who went to study overseas back to China. To do so, the state may first establish a "science center" to create positions for those who have returned from studying abroad but could not find a suitable jobs immediately. (These remarks of Deng have caused great repercussion in Beijing's intellectual circles, and the popular comment is "Deng Xiaoping is no fool.")

3. It is necessary to investigate and affix the legal responsibility of Fang Lizhi [2455 0536 0037] for spreading overseas such rumors that "high-ranking CPC officials and their children all have personal deposits with foreign banks." Deng said that the remarks made by Liu Binyan [0491 6333 7159] in Hong Kong are "not that bad." He said: "Liu Binyan is different from Fang Lizhi because he still agrees that China should take the socialist road and that China needs to rely on the leadership of the communist party." Deng Xiaoping explained that it was necessary to distinguish between two situations: one was that some people have violated state law and should have been punished according to law; the other was that some people had different political views, complained about socialism and the communist party, and should have been allowed to exist.

4. The reform is a comprehensive one that involves many sectors, price and wage reforms are the focus of the comprehensive reform, the comprehensive reform are creating conditions for wage and price reforms, and the success of the reform very much depends on the success of price and wage reforms.

Mr Deng Firmly Supports Zhao Ziyang

First, Deng Xiaoping's speech as briefly outlined above has several intentions. By talking about "the concept of considering the situation as a whole," he first urged all CPC organizations to obey the unified order of the CPC Central Committee and not compete in speed for economic growth and capital construction scale by promoting wasteful practices. Then, he warned some people (allegedly referring to Bo Yibo and Wang Zhen because these elder politicians recently had quite a few complaints about Zhao Ziyang) not to interfere with the situation as a whole by engaging in little tricks and urged them to give priority to safeguarding the authority of the central government. He would not allow Zhao Ziyang to follow the same old disastrous road as Hu Yaobang did. Besides, Zhao Ziyang's current predicament is created, to a certain degree, by being active in pushing the reform plan formulated by Deng. So when Zhao Ziyang accepts his duty, Deng Xiaoping has to back him up.

Second, by saying that "the reform should be a comprehensive one that involves many sectors," Deng Xiaoping actually revised his original plan to carry out wage and price reforms as individual reforms. Instead, he focused

on a "comprehensive reform" which was designed to create favorable conditions for price and wage reforms. However, he warned those, who originally opposed his plan and who hastily and bravely "charged ahead," that shelving the price reform plan temporarily was not to give up on reform but to continue "to deepen the economic reform in an all-round way." In fact, this also is to encourage Zhao Ziyang to keep going and to try to break through current barriers in the reform from different angles. Therefore, although at the work conference of the CPC Central Committee, Zhao Ziyang accepted responsibility for the problems that had cropped up in the economy, he did so in accordance with Deng Xiaoping's suggestions by adding the sentence "deepening reform in an all-round way" to the sentence "improving economic environment and rectifying economic order." The intention of this effort is to make up in the added sentence for the meaning of reform not mentioned in the first sentence which was made up of two slogans. Zhao Ziyang reminded people that while adopting a series of necessary administrative measures at present, we must be careful not to create obstacles for future transition from the old system to the new one. The following tasks are of top priority: improve enterprise operating mechanism, promote state-run, large- and medium-sized shareholding enterprises, carry out pilot projects in establishing enterprise groups, and place the reform of property right on the agenda. Several people who attended the work conference of the CPC Central Committee and the Third Plenary Session of the 13th CPC Central Committee commented in private that in spite of the unfavorable political situation Zhao Ziyang is in right now, he still holds the real power because Deng Xiaoping is firmly behind him.

Deng Realizes That He Needs the Support of the "Ninth Kind"

Third, Deng Xiaoping's remarks about education, science and technology, Fang Lizhi, and Liu Binyan were intended to show, on the one hand, his uncompromising stand on "resolutely distinguishing" and, on the other hand, his major effort in searching for a harmonious relationship with the intellectuals and in his belief that political "opponents" and "dissidents" should be tolerated. This shows he has realized that losing intellectuals' support would not be a good thing. Deng's remarks, particularly about allowing "political dissidents" to exist, have caused widespread positive reactions in Beijing's intellectual circles. After the Third Plenary Session of the 13th CPC Central Committee, Zhao Ziyang, at the suggestion of Deng Xiaoping, had twice held forums of discussions with non-party personages and democratic parties in mid-October to solicit their opinions and explain policy measures currently adopted. This indicates that Deng Xiaoping and Zhao Ziyang are vigorously seeking more support and assistance from intellectual circles.

The abovementioned background reflects Deng Xiaoping's strong support for Zhao Ziyang, enabling Zhao to extricate himself from the unfavorable political

predicament. But this does not mean that the political challenge before Zhao Ziyang is over. Whether or not he can solve the problem depends on whether or not next year's inflation can be kept below this year's level. No wonder Zhao Ziyang anxiously warned the people at the Third Plenary Session of the 13th CPC Central Committee that whether or not next year's price index can be lower than this year's determines the success or failure in improving economic environment and in rectifying economic order and that "this is not only a serious economic issue but also a major political issue."

More Defects Are Revealed in the Public Ownership System

As mentioned above, when talking about strengthening macro-economy, Deng Xiaoping said: "We may have to take back some rights that we authorized a few years ago." This statement made some economists on the mainland feel that China's 10-year reform has yet to break through the old barrier of "planned economy," and that if delegating responsibility can enliven the economy, centralizing responsibility can stifle the economy. If China's economic reform fails to break this pattern of "decentralizing-recentralizing" and create new economic mechanism, it would be hopeless to push China's economy out of the slump. However, a more practical question that people are most concerned about is how effective centralized responsibility can limit and control the current economic disorder.

An economist in Beijing told me that a huge obstacle facing the mainland's economic reform is the "have-not feeling" among the general public created by years of state ownership. The overwhelming majority of the workers could not care or less about state property and the status of its appreciation. This has resulted in four consequences in the socioeconomic life: 1) Abnormal consumption, imbalanced supply and demand, and price increase. Because people do not care about property and its appreciation, they use all their money for consumption and try to convert, through all channels, state capital funds into individual or group consumption funds. When the state adopted decentralization to enliven the economy, no enterprise or unit, which were empowered to make its production and management decisions, could arouse its workers' enthusiasm unless it first satisfied their excessive demand for consumption funds, thus making it more difficult to effectively control the total demand. 2) Excessive savings and a large amount of idle currency. Last year, the gross value of social output on the mainland has just made a big breakthrough of reaching 1000 billion yuan. Yet, the state still could not satisfy the investment need this year after issuing an additional of 3 billion yuan in treasury bonds. In the meantime, urban and rural residents' individual savings were over 300 billion yuan and 50 billion yuan were left idling and out of circulation. 3) Since the implementation of the enterprise contract system, short-term behavior has existed extensively in economic operations, the investment bodies have become smaller in scale making

it impossible for the economy in underdeveloped industries to strengthen their investment capability and to improve effectively the shortage of supply and demand. 4) There appeared a vicious race in the spheres of distribution and consumption. Wage and bonus amounts are not restricted by the assets of the enterprises and the industries, thereby losing their power to effectively motivate workers' enthusiasm for production. It is thus clear that if we do not change fundamentally workers' attitude and the degree of concern toward the value of property and its appreciation, it is useless to control the total social demand and to improve the total social supply power.

The Old System Is Like a Leaking Air Bag

Judging by the viewpoint of this economist, it is not hard to find out how effective the series of measures are, currently adopted by the State Council to tighten the purchasing power of social groups, the scale of capital construction the control of money supply and capital input. Under the premise of unchanging property rights, while the above-mentioned measures adopted by the State Council may temporarily hold down to a certain extent the inflation and social demands of prosperity, they can also bring the following consequences: 1) Workers in many production departments will lose their enthusiasm for production thereby worsening the situation in which demand exceeds supply and creating the key factor of the current inflation. 2) Banks raising interest rates to strengthen savings accounts not only can worsen the problem of excessive savings and force banks to reserve more currency for interest payment but also may cause those production departments in urgent need of loans to shift their burden to society because they cannot absorb high-interest loans thereby make the price rise still higher. At the same time, there is still a possibility that these loan enterprises or departments would convert part of their loans for increasing property value into consumption funds, thus increasing the total social demand. 3) Since the fledgling market of the mainland is supported to a great extent by the purchasing power of social groups, a strict control of these social groups' purchasing power is bound to shrink the market, which will in turn cause production elements to lose market stimulation and direction unabling them to quickly transfer capital, labor, and other major production elements. Won't this create more confusions? 4) A serious economic situation in which inflation and stagnation exist simultaneously may appear early next year. This is because the surplus supply of currency issued this year will cause an inflation next February and March and the measures adopted this year to control capital construction scale and credit investment will also not see any effect in restraining economic growth until early next year.

The latest statistics show that in the first half of 1988 the additional money issued by the banks on the mainland had already reached more than 8 billion yuan, which suddenly rose to over 40 billion yuan in the third

quarter. Concerned personnel estimated that this figure will probably exceed 80 billion yuan by the end of 1988. This shows that the requirement by the State Council to exercise a strict control of money supply was not effective. It is impossible to effectively suspend the inertia of operation of an old economic system by relying on the old system itself because this old system has become a leaky air bag which is useless no matter how much air is pumped in.

According to the guidelines of Zhao Ziyang's speeches at the CPC Central Committee Meeting and the Third Plenary Session of the 13th CPC Central Committee, the mainland will continue to implement the "double-track system" in major raw material industries. The so-called "prices of industrial products will be controlled mainly by state plans" whereas the production prices of consumer goods, such as light and textile products, are completely decontrolled and regulated by the market. Zhao Ziyang had intended to leave room in the "two-head industries," (industrial and consumer goods industries) for growth and maneuver for the establishment of a new economic system. But judging by the recent policy implementation, this intention of his has not been materialized. All industrial products are now controlled by the state's planned economy and those products, which were originally controlled by the market force, are now controlled by the state choking the prices of consumer products. As a result, the series of policies issued earlier to enliven enterprises have ceased to exist except in name. At the same time, in order to strengthen administrative control mechanism, the government has tightened the restriction and control of enterprises, making it totally impossible to carry out Zhao Ziyang's reform plans such as reforming enterprise operational system, clarifying the relations of property right, implementing share-holding system and pilot enterprise groups.... "The return of the old system," which people once worried about, has begun to appear.

The Strict Control of Public Opinions Is Not a Sensible Move

At the same time of carrying out the series of policies as mentioned above, the CPC recently also tightened the control of public opinions. Because the TV show *He Shang* [River Elegy] has created dissension among high-ranking officials, Hu Qili, who is in charge of the CPC's ideological work, is very nervous about it. Not long ago, he urged all major newspapers and other opinion-making organs in Beijing to stop talking about the show and scrutinize all comments and articles that "criticize and question Chinese culture." Some departments have quietly begun to investigate the so-called "political rumors" within their units.

What is noteworthy is that although the Third Plenary Session of the 13th CPC Central Committee put great emphasis on a "corruption-free government," it did not mention just how to do it and what effective measures were to be taken, especially where the political reform

was concerned. For instance, to punish "official racketeers," the Plenary should first define, clearly, "what is an official racketeer," and especially not avoid the large companies that have direct access to and depend on the central government. The plenary did not have any clarification on this. In another instance, Deng Xiaoping had given instructions to start cleaning up "Kanghua Company," and the central government immediately took actions. But, does this mean that the other three of the four large companies, along with "Kanghua" "that are directly under the State Council" are also "official racketeers?" Is the business conduct of these three companies different from the other companies that are handled as "official racketeers?" This is not known among the communities on the mainland. The result is that there is a lot of loud noise about "punishing official racketeers," but most people think it is just "a mere matter of form" and are not a bit excited about it. Besides, high-ranking CPC officials have split opinions on this issue. Some believe it is necessary to make concrete analysis of "official racketeers" and not to negate them all together. Since the "double-track system" cannot be abolished for the time being, some government-run management companies cannot but be allowed to take part in market circulation. Therefore, to what extent the clean-up of "official racketeers" should be carried out remains a question.

What is worth pondering is that during the 40-year rule of the mainland, the CPC always believes that it has the ability to lead this big country and "correct its own faults and mistakes," never having to pay any attention to cultivate the non-communist, independent progressive forces of the society. As a matter of fact, the CPC often rejects criticisms coming from non-communists and other social sources as "bourgeois liberalization." As a result, whenever there is a conflict between the progressive and backward forces of the party, the party always look for solutions within the party but never from outside the party. What happens usually is that the two forces, in the search of a balance, often compromise and modify the progressive's opinions into a mold that is "neither fish nor fowl," henceforth reducing the party's function by half in making national progress. The public, on the other hand, lacks enthusiasm and is indifferent because it cannot be directly involved. This makes it worse for the CPC to be effective in carrying out some of its good ideas. The CPC's high-ranking officials have yet to understand that its current policy approach is very unfavorable to national progress. Today, the mainland has so many problems and yet the CPC is still controlling public opinion and stifling criticism. Is this not blocking one's own way?

Editorial Says Political Rather Than Economic Reform Should Take Lead

40050100 Beijing LILUN XINXIBAO in Chinese
10 Oct 88 p 1

[Editorial by Li Xiaobing 2621 1420 0365]

[Text] Chinese society is in a period of radical change, and in regards to economic structure and cultural concepts, is perhaps already undergoing fundamental transformation. At the same time as these changes are being

carried out, there exists a widespread conviction that Chinese society is in a state of hidden peril, which might erupt into an overt crisis at any moment. The omens of such a crisis can be seen in: 1) the economic and cultural changes that are going on without any correspondence in other spheres of society. Political change as gauged by reforms in the political structure has been superficial and sluggish. It could fairly be said that the present imbalance in society are attributable to the stagnation of political reform; 2) the process of political reform in itself produces great difficulty and hazard, due to the problematic and sensitive nature of the operation. In pushing for political change, it is difficult for government leaders to maintain the same courage and resolve as in carrying out economic and cultural reforms.

I believe that in the present situation we ought to establish a public recognition that political change should lead the way in reform. The problems confronting China are at root political problems. After ten years of on-going reform the crux of the matter is clear; the decades-old governmental structure which protects and assures old economic and cultural assumptions should be made the fulcrum of the current social changes. This "public recognition" means that, in the present state of chaotic social fluctuations, society ought to view political reform as a public crisis. I think the following specific points ought to be stressed:

1) Political change must be a priority. The reforms going on in China are great. But the difficulties and obstructions attendant on the reforms necessary for further progress are even greater. This requires us to run counter to the struggles for change of the past decade. I believe that at present we require a major conceptual change; the stress must be shifted from economics to politics. The economic crisis of Chinese society is rooted in the stagnation of political reform. This paralysis in government has produced a crisis of motivation and legitimacy in the heart of society. In light of this, society's basic problem at present is how to use effective and democratic governmental structures to arouse the masses from hopeless negativism, restore a positive mood of initiative, and restore fundamental drive to the reforms.

2) Education in political concepts must be a priority. In political reform, China's actual situation must be considered. The stubborn nature of the old political structure and its "rationalization" resulting from decades of entrenched existence; the widespread and penetrating character of traditional Chinese culture and the great number of peasants making up the core of China's population; the dependent character of the Chinese intelligentsia and their instrumentalistic notions of democracy acquired from decades of cloistered official function, so forth and so on. Therefore, in political reform we ought first to set about elucidating and propagating concepts, providing guidance, and encouraging debate. I hope this policy will not be carried out as if marketing a popular song. As compared with economic

reform, propagation and explanation of political concepts and education as part of political reform has been very limited, but the resulting plans of action have been both too numerous and too extreme. Conceptual change is a slow process, but it is basic and necessary. A philosopher said it well: An idea cannot change the world, but it can change men, and men are able to change the world.

3) The concepts of democracy and freedom must be given priority. In changing political concepts, the ideas of democracy and freedom must be given precedence. "Democracy" means that political mechanism which exercises control over the governmental leadership and can reform political processes; "freedom" means establishing a harmony between the development of the individual and the development of society as a whole as the key to stimulating society's creativity and potential. But after millennia of feudal tradition followed by decades of the old governmental system, these two concepts are exceedingly obscure and easily confused. The governing class responds to the concepts of democracy and freedom with fear or contempt; the intelligentsia responds with abstruse theorizing or extravagant hopes; and the masses respond with incomprehension and indifference; all retard the progress of political reform and social modernization in China.

The rapid establishment of a highly developed democratic, lively, and beneficial system of government in China is an impossible hope. However, shifting the emphasis to political change and reform of political concepts is urgent and necessary. The discussion of political concepts can encourage the establishment of freedom of speech, freedom of the press, and other modern political norms. When these norms are established, it will help the people to intelligently achieve and structure the reforms in their entirety.

Ideas on Remedying Shortage in Education Funds
40050114 Beijing LIAOWANG OVERSEAS EDITION
in Chinese No 41, 17 Oct 88 pp 15-16

[Article by Haina Siyang 3189 4780 1835 3152: "Ideas on Remedying the Shortage of Education Funds"]

[Text] Such problems as "a spirit of moneymaking" and low treatment of teachers have consistently perplexed educators in China. Recently, government departments concerned began to form new ideas to deal with this founded on extensive investigation of the matter.

How to Remedy the Shortage of Education Funds

According to the opinions from most institutes of higher education, although there have been increases in education funds in recent years, the increases haven't kept up with rising commodity prices. This is because 50 percent of funds used by institutes of higher education go toward "personnel expenses," such as allowances for students and teachers. At some institutes of higher

education like the Beijing Institute of Foreign Languages, this allocation is actually as high as 81 percent. Additionally, the institutes of higher education also have to pay expenses for basic construction, water and electricity and a variety of apportioned items. And schools like Xiamen University even have to pay a subsidy to the SEZ. How do we solve these problems?

An idea would be to form education funds from two sources. "Personnel expenses" could be guaranteed from the financial budget allocations of the central and local governments. Operating expenses and basic construction expenses could be paid for mainly by levying various education taxes and by collecting tuition, and this could be supplemented by income from school-run enterprises, service for profit and fund raising in the community.

Many institutes of higher education also point out that, as authority has been delegated downward and the commodity economy has developed, more money has pooled into the hands of the enterprises. Thus, education should place more reliance on the enterprises. Qinghua University Vice President Zhang Xiaowen [1728 1321 2429] said: "China should adopt policies whereby the enterprise could find it attractive to assist in education." Beijing Aviation and Space University President Shen Shituan [3476 1102 0957] said: "NASA in the U.S. appropriates 10 percent of its annual funds to institutes of higher education for use in 10 science research projects." He feels that if only two projects are successful, the whole amount can be repaid. And even if none are successful, a batch of talent can be trained.

A Scientific Ratio for Transfer of Education Funds

One opinion which is representative of the sentiment in China's higher education circles holds that it is extremely necessary that we determine in a lawful manner a reasonable proportion of the national economy that is to be taken up by education funds.

The basic thinking on this is that under normal conditions the national budget should allocate no less than 15 percent of its expenditures toward education funds on a national average. Provinces and autonomous regions generally should allocate no less than 20 percent of their budgets toward education funds. We should authorize the various provinces, autonomous regions, and municipalities directly under the jurisdiction of the central government to classify and set the proportions for each county or city based on a principle of great increases of funds for education. Budget allocations for education should be raised to over four percent of the GNP. This would be in keeping with the level of developing nations.

Many institutes of higher education feel that the transfer of science education funds at the ratios suggested above hinges on the government's ability to place emphasis on education. Huaxi Medical University President Cao Zeyi [2580 3419 3015] said that it's not as if the nation was so destitute that it could not come up with any more

funds for education. If it were, then we would be hard put to explain how so many hundreds of millions of renminbi are thrown into construction of office buildings and halls. What is regrettable is that some provinces have not taken the money saved from cancelled construction projects and transferred it to education.

Open Up Channels To Increase Education Funds

For a long time education funds have been dependent on state financial allocations, and during periods of reform, this method has proven unsatisfactory. Thus, it is generally felt within higher education circles that a new study on the constitution of education funds and new channels to be opened up for the fund is an important issue in remedying the shortage of education funds.

Thinking in this area primarily encompasses four ideas:

1. Raise the existing ratio of supplemental education funds collected from the cities and authorize the governments of the provinces, autonomous regions and municipalities to set these funds themselves within a scope of one to three percent. Village supplements to education funds should be changed to a village education tax and for villages where the average annual income is above 200 yuan the supplement should be two percent of the tax levied. Levy a city and town social education tax at two percent of individual income. Levy a basic education construction tax of five percent of the annual investment in basic construction, exception construction of key national projects, energy resources, communications and transportation, agriculture and education projects. The above-mentioned taxes and education supplements should be collected by tax departments, deposited in special accounts and used entirely for education development.
2. Collect appropriate tuition, miscellaneous expenses and on-campus housing expenses from students at higher education institutes.
3. Institutes of higher education that possess the right conditions can transfer some of their instructors, in a planned and organized fashion and in accordance with each school's actual conditions, into developing off-campus-oriented, for-profit services. Also, they can move some of their stronger disciplines out into the community and incorporate them in developing new, high technology production. In areas where financial contracting permits enterprises to assist institutes of higher education in starting up enterprises in ways that do not affect the tax revenue to be paid to the higher authorities, the income earned by these enterprises could vest in the school for its use as it sees fit and could act as a supplement to the school funds.
4. Encourage the enterprises, units and other social forces to donate funds to the schools and also encourage the masses to pool resources to run schools.

Many institutes of higher education feel that these methods would be good but how much money can be made from them is difficult to ascertain. However, if the higher authorities can increase the self-determination of the institutes and extend some favorable policies and conditions, the institutes could solve a part of their funding problems through such routes as management development and horizontal integration.

Increase the Use of Education Funds

The feeling among institutes of higher education is that a universal reduction of expenditures and a broadening sources of income are the same thing; neither can be neglected in the process of solving the problem of education fund shortages. There are five ideas on reducing expenditures in order to put the limited amounts of funds to use where they are most needed.

1. Establish central government and local education funds appropriation commissions. After the financial budget is decided and ratified, education funds would be separately planned out and arranged by the state and local education fund commissions. This administrative system under joint management of the two appropriations committees and supervised by the financial and audit departments would take strict precautions against misappropriations.
2. Establish an Education Bank of China. Make full use of temporarily idle funds in society and, by using credit, adjust the surpluses and deficiencies in funds within the institutes of higher education.
3. Strengthen the management of education funds within the institutes of higher education. Establish a sound financial and supervisory system and put an end to waste and corruption.
4. Special and ordinary retirement living expenses for educating employees should be paid by progressively implementing social labor insurance or out of another line of expenditures, not from education funds.
5. Avoid unreasonable expenses appropriated to higher education. Nearly all institutes of higher education feel that in recent years there has been excessive rapid development of institutes of higher education. They feel that while it takes a minimum of 10 million yuan to build a new college, if the same amounts of money were put into colleges with fairly good science research and education conditions, the benefits would be much greater. Also, the breakup of departmental or local ownership has created numerous small but complete institutes of higher education with marginal results. This has caused a serious drop in the use of education funds. Thus, some institutes of higher education proposed that as they formulate the "Basic Education Law," they should provide the scope of their academic development

so that the number of their activities would be lower than the increase in education funds. Otherwise, there would not be enough education funds for education.

Reform the Internal Distribution Methods in Institutes of Higher Education

Currently, China's institutes of higher education to a varying degree has overstaffing problem in which personnel "eat from the common pot." This is bound to affect the ability of the various institutes to develop their potentials to a maximum. In higher education circles it is generally felt that another way to increase teacher income at the institutes of higher education is to make reductions in surplus personnel and to lower "personnel expenses" by increasing the teacher-student ratio. There are two aspects to this thinking.

First, the distributive principle of the more one works the more one earns should be embodied by the institutes themselves in fixing and arranging their personnel, promoting a system of annual wage contracts from the total budget and implementing a system of appointments to teaching posts.

Second, all levels of governments, labor departments, education administrative departments and the institutes of higher education should actively arrange for the proper settlement of surplus personnel and organize them to engage in production, management or profit-oriented services in the school-run enterprises and encourage them to go to other schools or units when reasonable.

Use Preferential Policies To Allay the Difficulties in Teacher's Housing

The difficulties in teacher's housing at the college level have long lacked appropriate resolution. Under conditions whereby we have reformed the housing system, the contradictions in teacher's housing have become even more pronounced. Looking at the long-term, we should progressively make teacher's housing more commodity-like, more privatized, and more socialized. Thoughts for the short-term are to implement a series of preferential policies for the construction, distribution and purchase of teacher's housing.

Increase investment in teacher's housing construction through multiple channels. Keep joint ventures between institutes of higher education and other units for the construction of teacher's housing off of the scales for basic national construction.

City planning and land management departments should give priority to arranging for construction land for teacher's housing, and requisitioned land should not be subject to city development fees.

The institutes of higher education can participate in overall planning of construction of small residence parks. They would only pay the costs of the residences themselves. The commodity residence sold to a teacher of an institute of higher education would be priced according to the cost of the residence itself. Initial payments would be appropriately lowered and later payments would receive an appropriate extension of years.

Reform of Leadership in Township, Town Governments Viewed

40050119b Zhengzhou LINGDAO KEXUE
[LEADERSHIP SCIENCE] in Chinese
No 38, Sep 88 pp 42-43

[Article by Lai Dehua 6351 1795 5478: "The Leadership System in Township and Town Governments Is in Urgent Need of Reform"]

[Text] Problems

Today, when there is a deepening of the reform in the rural areas, the township and town governments bear the responsibility for promoting the rural economy. They ought to have the full functions suited to their responsibility for leading all the work in the townships and towns. However, for a variety of reasons these governments are not in complete possession of these functions. This fact is prominently manifested in the cutting up of the "branches and pieces" in the township and town work departments. There are many cases of this cutting up in the relevant work departments in the rural areas. For example, the supply and marketing cooperative, the industry and commerce office, the tax office, the credit cooperative, the business office, and the grain management office are all agency units of the departments that are responsible for the work, that is, they are "branch" units. The work of these units is in the townships and towns, and their relationship is with the higher authorities. Human rights, material rights, and property rights are all controlled by the responsible departments. Between them and the township and town governments there is a sharp divide. Each has its own dividing line of interests. The township and town governments "cannot see and cannot control" them.

Malpractices

In the course of leading the general work, the township and town governments, whose functions are incomplete, are like a machine that is operating with incomplete parts. All kinds of breakdowns and malpractices occur.

First, in making policy there often occurs a situation in which the township and town governments are filled with enthusiasm to give the final verdict but, to people's disappointment, they do not do so. Tracing the ins and outs of the matter, we see that some of them are restricted by the "branch" units.

Next, with regard to the carrying out, in the township's and town's general work, of specific organization, deployment, inspection, and supervision, because the functions of the township and town governments are incomplete, it is easy for the "branch" units to act in a willful manner. They and the township and town governments have become like carts on two roads. They cannot be formed into a unified, highly effective organizational system, and thus the achievement of the township's and town's fixed objectives is limited.

During the deepening of the reform in the rural areas, this problem has become especially prominent. The development of the commodity economy in the rural areas inevitably puts a demand on the township and town governments to take economic measures, such as setting prices, collecting taxes, and providing credit. It entails the integration of economic, legal, and administrative measures, causing them to produce in common a guiding and a regulating and controlling effect on the economy. However, the township and town governments do not have the function of using the economic lever of price, tax, and credit. Lacking these economic measures, how can they manage the economy well? In the development of township and town enterprises, there are often temporary stoppages in capital and credit. The business office and the credit cooperative do not have responsibility; they have money but do not want to do things. The township and town governments have the responsibility, but they do not have the money to get things done. The result is that they only hamper the development of township and town enterprises.

Again, it is difficult for the township and town governments to handle well, during the course of production, the services required before, during, and after production. For example, the township's supply and marketing cooperative originally was to have been the circulation hub for the rural economy. Because it does not need to take any responsibility for the rural economy, human rights, material rights, and property rights are handled by the responsible departments above it. It is difficult for it to be in substance what its name—circulation hub—implies. Except for businesses that directly relate to its own interests, it wants to be neither the "supplier" nor the "marketer" for rural production, to the extent that it cannot even provide good services with regard to the mean of production of the chemical fertilizers and pesticides needed for agricultural production.

Finally, can the contradictions caused by the incomplete functions of the township and town governments, as described above, be resolved by means of coordination? The answer is in the negative. This is because the township and town governments in themselves are one side of the contradiction, and the features of the organization at the next higher level do not appear. Sometimes, through marathon-like consultations some temporary adjustments can be obtained, but on even more

occasions the adjustments are ineffective and a deadlock results. Much of the work is difficult to do, thereby seriously affecting the overall effect of the work in the townships and towns.

The existence of the abovementioned malpractices are imposing extremely large restrictions on the vitality and vigor of the township and town leadership system. If this "disease" is not eliminated, there will be many difficulties in deepening rural reform and developing the rural commodity economy.

Causes

First of all, looked at from the viewpoint of systems theory, the townships and towns are composed of many social organizations, such as the political, economic, cultural and educational organizations. These organizations are organically related and cannot be separated, and they possess integrated social mechanisms. The present situation in which the functions of the township and town governments are not unified is a case of the "branch" organizations of the township and town being separated out, causing this system—township and town—to lose its balance, to have incomplete functions, and to have its integrated social mechanisms suffer damage. This situation cannot but engender malpractices.

Next, a leadership system in which the functions of township and town governments are not unified violates the objective law that there must be unified command over leadership activities. The townships and towns are the forward position for rural work, and they comprise a relatively independent "society." In this "society" there can only be one command organization, which commands and coordinates the general work and the overall activities of the townships and towns. This work and these activities unconditionally require strict, unified command in order to achieve the joint cooperation of all the departments and the tens of thousands of people in the townships and towns. The township and town governments do not now completely possess this function of command and coordination in the general work and the overall activities. In the "branch" work departments in the townships and towns, the "body" and the "head" are separated, the former being in the townships and towns and the latter being in the responsible departments. The townships and towns have no authority to command them, and consequently the townships and towns have no way to achieve a unified command.

Once again, this kind of leadership system, the functions of which are incomplete, violates the universal law that for the normal operation of a leadership system there must be an integration of responsibility, authority, and interests. The township and town governments are responsible for the general work, but they do not have the authority to lead the "branch" units in them. There are not many direct relations between the interests of the "branches" and the overall interests of the townships

and towns. Naturally, it is difficult for this kind of system, in which responsibility, authority, and interests are separated, to evade the law's punishment, and so in the course of the system's operation all kinds of malpractices are engendered.

Countermeasures

The current leadership system in the towns and townships in which the "branches and pieces" are separated and the functions are not complete was gradually formed after the founding of the PRC. Following the switch in the focus of party and government work to economic construction, it appears to be daily less suited to the demands of the developing situation and it must be swiftly reformed.

How is it to be reformed? This writer thinks that we must abide by systems theory and the principle of unified command. In line with the universal law for the normal operation of a leadership system, namely, doing things in line with the law of integrating responsibility, authority, and interests, we must prescribe the correct remedy for the illness. Starting with transferring jurisdiction over management to the lower levels, we must unify and strengthen the functions of the township and town governments. We must take the management jurisdiction of those "branch" units that are related to township and town work, such as the business office, credit cooperative, supply and marketing cooperative, and tax office, with the exception of vocational training and guidance authority, and transfer its human rights, material rights, and property rights to the township and town governments.

If the work departments of the township and town, including the "branches" and "pieces" work departments are put under the unified command of the township and town governments, the latter will set up a unified, strong leadership system that will insure consistency and continuity in the process of making policies and implementing them. The township and town governments must make clear to their subordinate work departments the scope of their functions and powers, letting each department attend to its own duties and take its own responsibility, with government decrees going out one door and government orders going out another door, and with the departments being responsible in a unified fashion to the township and town governments. We must completely change the situation in which the "branch" and the "piece" are separated, there is confrontation between them, each one cares only about its own interests, and neither will give ground. We must establish a new system that is favorable to the development of productive forces in the rural areas.

Some people think that the "branch" units, like the industry and commerce office and the tax office, should be deployed at points according to economic region, and should not be set up according to administrative region

and put under the local administrative leadership. Actually, this argument for setting the administrative region and the economic region in opposition to each other is not convincing. Today's economic region is no longer the economic region of the past, which was mainly concerned with politics, but rather has the economic functions of a system suited to the characteristics of a given region. The fact that in different administrative regions there are distinct differences in the state of economic development fully proves this point. If it is said that there are inconsistencies between an administrative region and an economic region, then one could only set up administrative regions in accordance with different economic regions. There is no reason to again separate the "branch" and the "piece" within the administrative region. Not separating them will be advantageous to giving full effect to the economic function of the system within the administrative region and to the enlivening of the economy. The day when each administrative region is brimming with vigor will be the day when the rural economy of the entire country is booming.

Of course, giving to the township and town some management jurisdiction that they do not now have is bound to affect many quarters and both the higher and lower levels. It will be a complicated project of no small degree of difficulty, and there will be some hazards in it. However, only by making bold reforms that eliminate the existing malady of incomplete functions in the township and town leadership system will we be able to make this system glow with the vigor and vitality that will be favorable to the development of productive forces in the rural areas and to the promotion of reform. There is no other way to go than this.

(Writer's work unit: Dayou Township Government, Shicheng County, Jiangxi Province)

County Tries Out Probation System for Leading Cadres

40050119a Zhengzhou LINGDAO KEXUE
[LEADERSHIP SCIENCE] in Chinese
No 38, Sep 88 pp 19-21

[Article by the Case Method Research Topic Group of the Organization Department in the Shanxi Provincial CPC Committee: "After 19 Leading Cadres Were Dismissed or Demoted..."]

[Text]Editor's Note This is an issue in which, after 19 leading cadres were dismissed from their posts or demoted, a "personnel lawsuit" was lodged that related to the legal system, the personnel, and the cadre system. The dispute between the county party committee and the NPC continues... Our readers are asked to give their views as to who is right and who is wrong. We welcome their letters!

1. Musings of an Organization Department Director

In May 1986 the party committee of a certain county conducted a democratic examination and assessment of the leading cadres at the county bureau level and above, after which 19 of them, who were found to be unqualified for their work, were dismissed, demoted, or transferred. A little over a month later the office of Li Ming [7812 2494], director of the county party committee's Organization Department, and even his home, had turned into "reception centers" where people went in and out in an endless stream.

One evening in June, Li Ming, who had just taken part in a commendation meeting for "veteran cadres who had given that extra bit of dedication," his face streaming with sweat returned home with swift steps. As he crossed the threshold of his house two persons followed on his heels, and inside the house three or four persons were waiting for him. They were all cadres who, after the democratic examination and assessment, had been dismissed or demoted. Some of them had already come to his house several times.

"Director Li, I had held my post for more than half a year. Why was I demoted?" The speaker, who wore spectacles for nearsightedness and who had a gentle manner, had been promoted from engineer to director of the Second Light Industry Bureau. After the examination and assessment, he had been demoted to deputy director. The conclusion drawn by the Organization and Personnel Department was: "This comrade has a strong sense of dedication and a perfect mastery of his professional skills, but he lacks the ability to assume overall responsibility for a bureau."

Another man, tall and heavyset, said, in tones that had the choking smell of gunpowder: "What evidence did you people rely on when you dismissed me from my post? Had I embezzled? Had I taken bribes? If you say I'm unprofessional, how is it that I have done my work for so many years and just now am considered unfit?" Before being dismissed this man had been the director of the Judicial Department. After examining and assessing him, the Organization and Personnel Department concluded: "This comrade has a strong enthusiasm for work, but he lacks professional knowledge about judicial affairs and is unsuited to do judicial work."

Several others tried to get their questions in, and Li Ming really didn't know whom he should answer first. Also, it would be difficult for some time to make these people sincerely convinced of the correctness of the assessments. Therefore, he could only offer well-meaning advice. As a standing committee member of the county party committee and as the director of the Organization and Personnel Department, he wanted to execute the organizational decision unconditionally. However, he also had to bring all his skill into play to dispel the anger and resentment of the people who had come to him.

When he had seen off the last of them, it was past one in the morning, but he was not the least bit sleepy. Half leaning on the sofa he thought:

"Well! They can go up or down. If they go up that is their just due, but if they go down then things aren't so easy! How can I make them conscientious workers when they go 'up' and make them happy, reliable subordinates when they go 'down'? Should it, perhaps, be at least made natural and easy to go 'down'?"

2. The Scheme of the Director and the Secretary

Wang Gang [3769 0472], secretary of the county party committee, was just about to put out his bed light and go to sleep when a volley of knocks resounded on his door, which he immediately opened. "Old Li, it's so late and you're not resting?"

"Secretary Wang, I can't sleep! I want to talk with you about the situation that has developed over the past few days."

"Old Li, I also wanted to talk with you. Every day we deal with people who seek us out. We're up to our ears in work. What work don't we do? In the future, following the reform of the cadre system, the tenure system for cadres will be put into effect and it will be a common thing for cadres to advance and retreat, go up and go down. If we are entangled with people so much, it will be a terrible mess. We must come up with a method to solve the problem."

"I've been thinking it over. I feel that if we are to solve the problem of 'going down,' first of all we must settle the question of 'going up.' That is, if one wants to go up one must be prepared to do so. To insure that this point is kept in mind we must not 'give the final word.' It would be best for a person to first be tested in practice. After he goes through a period of probation, if he proves to be competent then appoint him; if he proves to be incompetent then don't appoint him and let him stay in his original post. In this way he will not be dismissed after his appointment." Li Ming finished speaking. Secretary Wang then said: "That's not a bad way of handling the matter. To be a worker one must go through a period of apprenticeship, and to be a party member one must go through a period of probation. Why can't a promoted cadre be put through a probationary period? I think we could call it an 'in-post probationary system for newly appointed leading cadres.' As for the specific methods, we can leave them for the Organization and Personnel Department to study."

3. Call by the NPC Chairman

After Director Li Ming got the agreement and support of Secretary Wang Gang for his idea of putting an in-post probationary system into effect for newly appointed cadres, in order to make the system work reliably Li Ming decided to conduct experiments at selected posts

where conditions were fairly good, namely, the Culture Bureau, Tax Bureau, Judicial Bureau, and Second Light Industry Bureau. He would then, on the basis of a popular opinion poll, determine the persons selected for probation.

One day, when Li Ming was giving Wang Gang a report on the question of the selection of probationary bureau directors in the four units, Old Gu [7357], chairman of the county NPC, walked in. "I came to talk with you about the cadre question. In May it was announced that a number of cadres had been demoted or dismissed, and to this day the posts of bureau director have remained vacant. I ask both of you to recommend, as soon as possible, persons suited to these posts in order to avoid adverse effects on work."

"We were just discussing this matter. We have initially decided to try out the 'bureau director in-post probationary system' in these units." Li Ming took up the topic of conversation from Old Gu.

"Will you give a probationary bureau director the full authority of a regular bureau director?" asked Old Gu.

"Of course he will be given that authority of office. How could he get the work done without it?" Wang Gang answered for Li Ming.

When Old Gu heard this he shook his head and said: "In accordance with the legal provisions of the Constitution and the Local Organization Law, the authority to appoint and dismiss bureau directors is vested in the NPC Standing Committee. You both know this. If you put into effect a probationary period before making the full appointment to bureau director, although in name it would be different than an NPC appointment, in essence it would be the same. Wouldn't it be equivalent to a matter falling under the jurisdiction of the NPC in a disguised form?"

Seeing that the NPC chairman wanted "to turn away a visitor with an excuse," Wang Gang said half jestingly: "My dear NPC chairman, every evening you slip into a fond dream. We are still in a verbal 'battle royal' with other people. Let us change policies and try something. You know that this method is only a 'panacea.'"

After hearing what the county party committee had to say, Old Gu replied: "As the secretary of a leading party group in the NPC, I obey the county party committee's decisions; as an NPC chairman, I cannot but call on you and ask you both to consider the question a little more fully."

4. Resolution of the County Party Committee's Standing Committee

On 1 December 1986 the "Organizational Work Newsletter," which is written by the Organization Department of the provincial party committee, positively assessed

the experience of the "XX County CPC Committee in boldly reforming the cadre personnel system by putting cadres on probation before they are promoted and, based on the actual results in their work during the probationary period, deciding which ones to remove and which ones to retain."

On 5 December a meeting of the county party committee's standing committee, presided over by Wang Gang, was held. First of all, Organization Department Director Li Ming reported on the situation in the Second Light Industry Bureau and other units with respect to putting bureau directors on probation before their full appointment. He asked for a formal resolution on the question be issued to the lower levels as document of the county party committee.

Several standing committee members expressed their approval of his statement, and in succession they made additional statements.

At this point Old Huang [7806], the county party committee's adviser, as usual smoking a cigarette with his head lowered, stood up and in a leisurely manner said: "The NPC has reported that the practice of the cadre probationary system runs counter to the working laws and regulations of the NPC. I ask everybody to give the matter careful consideration. It could be a question of principle! My opinion is that it would be best to proceed with care. If it is not handled well we could make mistakes." Because Old Huang's qualifications and record of service are quite good, although not everybody agreed with him no one opposed him. They all turned their gaze on Secretary Wang Gang.

The secretary, of course, understood their meaning. After seeing the look in Old Huang's eyes, he said in a serious tone: "Our party has always advocated the principles of seeking truth from facts and proceeding from reality in all things. The cadre probationary system will help to promote the leading cadres' consciousness of competition; help to improve administrative efficiency and to arouse the cadre's enthusiasm for work; help to democratize the selection of cadres and to improve the accuracy rate in the appointment of cadres; and help to open up the field of vision in the selection of talented persons and to encourage more cadres to exert themselves and keep forging ahead. At the same time it provides an opportunity for the NPC to test its formal appointments. What, then, is bad about it?" What he said was both a negation of Old Huang's opinion and a summation of everybody else's statements.

The question was finally put to the vote. Of the seven persons at the meeting, five agreed that a document of the county party committee putting the probationary system into practice should be sent down to the lower levels, one was absent for good reason, and Old Huang stuck to his opinion.

On 10 December 1986 a "Notice of the XX County CPC Committee on Putting Into Practice the Probationary System for Leading Party and Government Cadres at the Section Chief and Bureau Director Levels Who Have Been Newly Appointed to Their Posts" (Document No 55 (86) issued by X) was sent down to all lower levels in the county.

After the document was issued, 37 leading cadres in the county were put on probation, of whom 25 were in the party system and 12 were in the government system. Although this action led to a discussion in the NPC Standing Committee, because it was at that time the eve of changing to another session of the Standing Committee, no one obstructed or interfered.

5. Warning by the NPC Chairman

In April 1987 the county's Ninth NPC Standing Committee was formed and Geng Kai [5105 0418], a man who enjoyed high prestige and commanded universal respect and whose qualifications and record of service were excellent, assumed the office of chairman of the NPC Standing Committee. This veteran comrade of 40 years' party standing, who had been the chief judge of a law court for 10 years and the deputy head of the county for 5 years, immediately set about overhauling and consolidating the NPC's work. He made a special point of organizing a discussion by the standing committee members of the cadre probationary system. Each of the members aired his own views, and the general view was: The provisions of the county party's document on the cadre probationary system are dependent upon the laws and regulations for NPC work and they infringe on the NPC's authority. Some members said: "The NPC, the NPC—it is not as good as one sentence spoken by the Organization Department director." One after another they demanded that a protest be lodged in the name of the NPC Standing Committee. However, Chairman Geng truly felt that there would be a little difficulty in doing so. As the NPC chairman, he ought to correct to represent the NPC in correcting the mistaken practices of the county party committee; as the secretary of the leading party group in the NPC, he also should implement the county party committee's resolution. Finally, after turning the matter over in his mind again and again, he decided to adopt the tactic of "trying peaceful means before resorting to force." First, he would discuss the matter in private with Secretary Wang Gang in the hope that the county party committee would rescind the document on the cadre probationary system.

Unfortunately, the secretary had just left for a session of study at the provincial party school and would be gone for 3 months, and the deputy secretary of the county party committee's standing committee was sick in a hospital. He had no choice but to seek out the director of the Organization Department. After explaining his reason for coming to him, Li Ming gave the director an optimistic briefing on the current situation throughout the county with respect to putting into practice the cadre

probationary system. After which, with excitement, he talked about his own understanding of the situation. In the end he said: "The county party committee made the decision to put the cadre probationary system into practice. We have no right to change this decision and must carry it out resolutely."

When he heard what the Organization Department director had to say, Old Geng was firm but gentle. Naturally, he also would not yield to force. In strong tones he said: "Perhaps what you say is true, but we members of the NPC must protect respect for the law. If you go to the provincial level and hold a meeting, please pass on the opinion of the county NPC that Document No 55 of the county party committee should be rescinded as soon as possible. Otherwise, all of you will be responsible for the consequences." This amounted to a formally issued warning.

6. The NPC Notice Publicized by the Party Newspaper

On 20 September 1987, in an article entitled "Taking One's Post Before Being Formally Appointed, and Having One's Work Graded With Discussion of One's Strong and Weak Points; the Leading Cadre Probationary System Put Into Practice by XX County Gets Good Results," the provincial newspaper reported on the experience of this county. Soon afterward the article was reprinted in RENMIN RIBAO.

No story is without its coincidences. One afternoon the director of the county party committee's Organization Department had just finished briefing a comrade from the Organization Department of a certain county in Heilongjiang Province who had come to learn from the other county's experience, when Wu [0702], a clerical worker, walked in and handed the director a document entitled: "Circular Notice on the Illegal Exercise of Their Functions and Powers of Office by 12 Comrades, Including Chen Peng [7115 7720], of the Standing Committee of the XX County NPC." The notice read: "Twelve persons including Chen Peng, without being appointed by the county NPC Standing Committee, separately and illegally exercised the functions and powers of chairmen and bureau director and took charge of work for more than 9 months. In accordance with the Constitution and the Local Organization Law, which give the power to appoint and dismiss cadres to the local NPC Standing Committee, and in accordance with the provisions of CPC Central Committee documents No 9 of 1984 and No 18 of 1986 concerning the appointment and dismissal of leading personnel of state organizations, and in order to protect respect for the law and eliminate harmful effects, we hereby make a special criticism of this behavior. We ask the county government to take effective measures immediately to correct this illegal behavior."

Li Ming realized that the NPC notice, which clearly pointed to Chen Peng and the others, was in essence aimed at the county party committee's document on the

cadre probationary system. With one hand he picked up the copy of RENMIN RIBAO that had carried the news about the cadre probationary system. With his other hand he picked up the notice issued by the county NPC Standing Committee. His back resting on the sofa, he fell into deep thought...

7. An Ongoing Dispute

Since the county NPC Standing Committee deemed the cadre probationary system to be illegal, Wang Gang felt that he had to hold an enlarged session of the county party committee's Standing Committee to determine distinctly what was right and what was wrong. This determination would not only relate to whether the probationary system would be continued in practice, but would also relate to the future relationship between the NPC and the party committee.

The enlarged session of the Standing Committee notified NPC Chairman Geng that he could attend it as a nonvoting delegate. The atmosphere at the session was tense and serious. Wang Gang first of all laid down the topic for discussion: 1) does the probationary system for the appointment of leading cadres contravene the law? and 2) if it does contravene the law, what must we do? There was a long period of silence in which no one spoke.

"Old Geng, you are the 'plaintiff,' so you give your opinion first!" Wang Gang called the roll.

"With regard to the question of whether the cadre in-post probationary system contravenes the law, I have already made my position known to the county party committee several times. The NPC Standing Committee has also issued a notice. Therefore, I don't have to repeat my position. However, since I am attending today's session of this Standing Committee, I will take the opportunity to read out to everybody the relevant articles of the law, so at least they will be propagated!" Saying this he took several legal documents out of an official document bag and read: "Article 104 of the Constitution stipulates that the standing committee of the local people's congress at the county level and above will...in accordance with their jurisdiction under legal provisions make the decision to appoint or dismiss personnel working in state organizations.

"Article 28 of the Local Organization Law stipulates: the local people's congress at the county level and above will decide on the appointment and dismissal, at its own level, of people's government secretary generals, provincial department directors, bureau directors, chairmen, and section chiefs; and will report for the record its decision to the next higher level of the people's government.

"In the 'CPC Central Committee's Circular Notice on the Necessity for the Entire Party To Resolutely Safeguard the Socialist Legal System,' it is said that Article 5 of Central Document No 18 states...and Central Document No 9 (84) states...."

After Old Geng had finished his reading, Li Ming picked up the theme of the conversation: "It is a consistent principle of our party that the party manages the cadres. The report of the 13th CPC Congress clearly stipulates: It is a major responsibility of the county party committee to recommend important cadres to the local organs of state power. In making the recommendations, quality must be insured, and the recommendation for each one must be accurate. Practice has proven that cadre in-post probation is a good method for insuring the accuracy of the recommendation."

"Looking at the relevant laws that have just been read out, I see that there is no clear provision that prohibits probation," added the deputy secretary of the standing committee.

"The law stipulates that only the NPC can appoint cadres, making it clear that only the NPC can vest leading cadres with authority. The county party committee went ahead of others in trying out the probationary system, and also let the cadres on probation enjoy the political treatment given to regular cadres. Wasn't this a transgression of the law?" Old Geng retorted.

"I think the probation system is perfectly correct. The cadres on probation in the several bureaus of the governmental system are doing outstanding work. Furthermore, the press has disclosed that this is also the case in some other places throughout the country. However, who exactly is to put cadres on probation is a question that still must be considered. In line with the principle of being consistent in managing affairs and managing people, wouldn't it be a little better for the county party committee to put on probation the cadres in the party and political group system, and the government put on probation the cadres in the governmental system?" Chen Ying [7115 5391], deputy secretary of the county party committee and head of the county, fired a shot across the bow.

The enlarged session of the Standing Committee continued in this way, a lively conversation with everybody joining in, from 3 pm to over 6 pm. Although the majority at the session said they supported the in-post probationary system for newly appointed leading cadres, the NPC's legal basis could not be refuted. Thinking that it would obviously not be appropriate to be impatient to reach a conclusion, Wang Gang was forced to announce the meeting adjourned.

In the final analysis, who is right and who is wrong remains an open question to this day.

NATIONAL AFFAIRS, POLICY

Price Problems Examined

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[Article by Lu Nan 6424 0589, State Pricing Bureau:
"Thoughts About Current Price Problems"]

[Text] I. Selection of Reform Countermeasures

The following alternatives exist for dealing with price rises and inflation in the course of reform: (1) Control currency and free prices; (2) when currency cannot be controlled, control prices; and (3) when currency cannot be controlled, free prices. The preferable way is to control currency and free prices. Inasmuch as the currency supply is not all that large, the freeing of prices will not cause tremendous price rises. Instead, it will help check prices and help steady development of the national economy. Possible problems include some adverse effect on the speed of economic growth, and normal commodity exchanges among enterprises may be adversely effected as a result of "currency control." Comparatively speaking, however, I believe that these choices still offer the best way out. A bad plan would be resort to the use of administrative methods and financial subsidies to control prices should it not be possible to control currency. Though prices would rise somewhat less by so doing, inevitably prices would be more distorted and the pricing system less manageable, which would adversely affect both production and the flow of commodities, and reforms could not go forward either. One advantage of freeing prices when currency cannot be controlled is that inflation is brought out into the open rather than kept under wraps. However, people have to be willing to bear the hardships that a tremendous rise in prices occasions. Should relative stability ensue after a tremendous price hike, this should still be regarded as a choice, albeit a choice for which a very high price will be paid. However, a situation that is more likely to happen is that the tremendous rise in prices will force increased issuance of currency, and the increased issuance of currency will give rise to further price rises. Once this happens, inflation become worse and worse with each passing year. Therefore, this is a choice that carries very great risks.

Increasingly severe inflation is bound to have an adverse effect on the stability of the public's livelihood, particularly the livelihood of staff members and workers who depend on fixed wage income, and this further adversely affects political stability. Increasingly severe inflation is also very disadvantageous for production and the flow of commodities. Though some businesses may derive some advantage from inflation, it may cause entrepreneurs to focus only on market speculation causing abnormalities in market operation.

Of course, currency control cannot be too tight either. When currency control is too tight, a rise in prices of primary products set by the state may also occur, with numerous processing enterprises falling into serious difficulties as a result. The closing of some antiquated enterprises would benefit the readjustment of the country's industrial structure, and would help coordinated development of the national economy; however, if too many enterprises go out of business, an extremely risky situation develops. When many enterprises go out of business, difficulties arise at once in the livelihood of the staff members and workers in these enterprises. In addition, in enterprises that do not go out of business but face difficulties, the income of staff members and workers may fall, and opportunities for employment may decrease while the number of people looking for jobs increases. All this can have an extremely bad effect on social stability and can adversely effect economic development.

Therefore, we should do all possible to avoid price reforms when inflation cannot be controlled, striving to keep currency inflation down rather than make price reforms when currency is overly tight, so that during price reform the rise in prices is no more than that required for structural readjustment. Calculations show that generally this should be no more than between 4 and 5 percent per year. Should this be unachievable for the time being, the extent of price rises should be controlled at between 2 and 3 percent more than the annual amount needed for structural readjustment.

II. Avoidance of "Hollow Achievements" in Price Reform

If price reform exceeds the amount needed for structural readjustment causing a rise in the prices of low priced primary products, prices of processed products that are not low priced will rise along with them. This will result in a relative lowering once again of prices for the formerly low priced goods, thereby causing a greater rise in overall price levels for no benefit whatsoever. This greater rise in overall price levels is a "hollow achievement" that holds no importance in solving inequitable comparative price problems. Of course, it is difficult not to cause even a little price inflation or slight "hollow achievement" in the course of reform, but we should do all possible to reduce "pointless" expenditures.

In the 3 year period 1985-1987, China's consumer goods index rose 25.1 percent in a 7.8 percent annual incremental increase. The rise in prices during the past several years has shown some marked differences from price rises in earlier years in that not only has there been a rise in the overall price index, but prices of all commodities have also risen. Food prices rose 35.3 percent, and even in the category of goods for which the price rise was least, namely recreational items, the rise was 5.1 percent. The

price of industrial manufactures, including clothing and daily household necessities, rose 10.9 percent, and 12.3 percentage points of the consumer goods price index was "pointless."

III. Goals of Price Reform—New Mechanism for Determining Prices, and Methods and Steps for Realizing Goals

The goal of our price reforms is to effect gradual state control over the prices of a small number of commodities and to free the prices of most commodities, allowing market competition to set them. Certainly, the prices set by the state for a small number of commodities not only have to reflect changes in costs, but changes in market supply and demand as well. For the majority of commodities whose prices are to be set through market competition as well, the state also has to apply indirect means of regulation in order to avoid too violent fluctuations. At the same time, it has to apply the law to effect control in order to prevent industry monopoly prices and fraudulent practices. The country's new mechanism for determining prices should take the form of controlled market prices.

The fairly serious distortion of the price system that exists today can only be redressed through a process of increasing prices of the small number of state-controlled commodities (primary products and daily necessities) and removing restraints on the prices of most commodities. The freeing of prices, allowing prices to be set through the operation of market competition, can set the stage for bringing prices into line; however, this is not to say that once price restraints have been removed, prices will automatically come into line. Unruly prices are attributable not only to excessive state intervention with administrative methods to shape prices, but also to market forces. When the market is not in good shape, violent fluctuations in market supply and demand also causes price distortions. This latter situation cannot be automatically checked through the removal of price restraints. Therefore, market organization has to be improved, and the building of markets accelerated. At the same time, the state has to employ economic methods for indirect regulation of markets. When the state regulates markets well, and markets are fairly stable, prices will be fairly equitable, and serious price distortions can be fairly easily corrected.

In addition to different requirements with regard to the macroeconomic environment, price measures themselves also provide very many methods that can be selected to bring the price system into line.

Not only must the different requirements pertaining to the macroeconomic climate be met in order to bring the price system into line, but pricing measures themselves offer a choice of very many methods that may be used. The one time placement method is one such method as follows: Price of energy, transportation and industrial products of a monopoly character, as well as prices of

certain daily necessities, which are to be set by the state in the future, are adjusted to an equitable level and then set free. This one big change enables prices of all categories of commodities to stabilize at a new level. But how is the "place" in this one one time placement to be construed? If it is construed as an internal balanced price, a one time placement is possible. Though it may produce a substantial shock, objectively this possibility exists, nevertheless. If the "place" is construed as being equal to or close to the international market prices for energy, raw and processed materials, and such primary products, a one time placement is not possible. This is because there is a substantial gap at the present time between China's prices for energy and certain raw and processed materials and the international market prices. A one time increase to near the international price level would be bound to cause a rise in prices of products produced by China's processing industries, and a corresponding rise in agricultural product prices for a comparative price regression. This is a result of the level of the country's processing industries, as well as the level of all of its science and technology, and the level of national economic development. Therefore, price reform can only be introduced gradually on the basis of the amount of pressure that most of the country's enterprises are able to bear each year.

One method for gradually introducing price reform is by product categories, prices of one category after another being reformed in groups. This would be a one time placement for each series of product prices, overall price reform being carried out gradually by groups. Such a method would be fairly safe and highly feasible; however, frictions are bound to increase between categories for which prices have been reformed and categories for which prices have not yet been reformed thereby adversely affecting the results of reform. In addition, the conflicts and frictions resulting from the different pace of reform between those subject to price reform first and later would be extremely difficult to deal with, difficult to gain a consensus about, and could even adversely affect progress in reform.

Price of energy, transportation, and industrial products of a monopolistic character, which are currently grossly inequitable, as well as prices of certain daily necessities for which the state will set prices in the future will have to readjusted in small annual increments. Some of them can be adjusted to an equitable level within 3 to 5 years; others will take 6 to 10 years, and some may take an even longer time before they can be adjusted to a basically equitable level. However, most of them can be adjusted to a basically equitable level within 3 to 5 years. For those commodities that should be removed from price restraints, or for those that are to be freed in the future, as well as the means of production for which a two-track system of prices is currently in force, continuing to follow a path of removing price restraints can bring basic freedom from restraint within 3 to 5 years, setting the stage for bringing into line prices of products in these categories. By following the path of freeing prices, simply

doing a good job of regulating markets will make it fairly easy to bring prices of this category of commodities into line. Across-the-board, gradual, and synchronized reform would cause somewhat fewer conflicts and frictions than the foregoing method. It would also not be difficult to carry it out in concert with various other reforms. So long as the microeconomic climate is rather well controlled, and so long as it is fairly easy to achieve zero or little comparative price regression, operation of such a method is also not very difficult.

IV. Coordinating Price Reform and Various Other Kinds of Reform

Price reform must be carried out together with the building and perfection of a market system, and proceed in concert with enterprise reform; otherwise, price reform will be unable to produce desired effects, and price reforms will be difficult to complete as well. Building and perfecting the market system, and promoting enterprise reform requires reform of the planning, materials, government finance, tax, and banking systems for the building of a mechanism whereby the state can indirectly regulate markets. The relationship of the planning and materials system to the price system is obvious. Once price restrictions have been removed, it becomes difficult for the planning and materials supply systems to carry out command-style planned distribution; at most they can only institute a distribution system that insures the supply of certain amounts but not at guaranteed prices. The planning and materials supply systems will also have to free prices, shape markets, and begin to build a system for exerting indirect market regulation as part of their gearing up to meet the needs of a socialist commodity economy.

The relationship between the price system and the public financial system is also clear. The old public financial system was one of centralized revenues and centralized expenditures, with enterprise's profits being paid to the state, and even depreciation funds having to be turned over to the state. Funding to found enterprises or for replacements and improvements had to be provided by the state. Enterprises did not care whether prices were high or low; the only role prices played was in accounting. For their part, public finance departments always hoped that prices would not change so that they would be able to balance financial receipts and expenditures, and clear accounts. Financial units appreciated that changes in prices affected the amount of financial revenues received, and they supposed that when calculating the effect of price changes on all else, financial units could never outwit enterprises, so every time there was a change in prices, a substantial erosion of public financial revenues occurred. Therefore, it was best when prices moved little or not at all. In a commodity economy, however, prices must change promptly as costs and the supply and demand situation change. If the changes do not take place at once, the national economy will be adversely affected, and if no changes are made over a long period of time, price distortions will occur for even

more serious consequences. Therefore, the public financial system must meet these changes; it can no longer try to halt price movements. Another fairly prominent problem exists today between the price system and the public financial system, namely the numerous conflicts resulting from the different effects of price changes on public finance in all jurisdictions. In the face of these conflicts, there should be no retreat into isolation, placing limitations on the flow of commodities, or adoption of two different price systems because of so called "internal and external differences." They can be resolved only on the basis of exchange of equal value.

Price system reform is also closely related to banking system reform. This is currently manifested most prominently in the negative interest rates resulting from the fairly huge continuous rise in prices over the past several years. Interest rates on both savings and loans are lower than the degree to which prices have increased. This has both decreased people's interest in saving and encouraged enterprises to take out numerous loans. Once the loan funds are in their hands, instead of using them for production, they buy goods on which they can make a profit, which is very bad for enterprise's improvement of administration and management.

The issuance of share certificates is a major reform in socialist countries. Today the issuance of share certificates is based on the withdrawal of currency from circulation to support price reform; therefore, revenues from the issuance of share certifications should be controlled by the state. Were the companies that issue share certificates able to control this income freely, they would likely use it to expand production, a substantial portion of it being used to pay for increases in capital construction. The result would be not only inability to sustain price reform, but the creation of very great pressure on markets. When residents buy share certificates, pressure on consumer goods markets may be weakened somewhat; however, most of the money used to buy these share certificates is currently in bank savings accounts, and it is put to use when banks loan it out as circulating funds. By converting it to share certificates, savings decrease, and a source of circulating funds is reduced as well. This has an adverse effect on the production and business activities of enterprises in general, so banks have no choice but to increase the issuance of currency, which causes credit inflation. Resorting to credit inflation to support production and business activity increases the conflict between total demand and total supply, and also places very great pressure on the market.

V. Suggestions for Price Reform of Several Categories of Products

A. Prices of the means of production. Raising overly low energy and transportation prices, which are in the category of prices to be set by the state, to an equitable level will require a very great rise indeed. Furthermore, energy and transportation are basic industries affecting all

industries; therefore, the effect of changes in energy and transportation prices will be far-reaching. A tremendous rise all of a sudden will be difficult for many industries to bear, so a gradual increase to an equitable level over a period of approximately 5 years is recommended. For some products, and for labor, the one time placement method may be employed to raise prices to an equitable level.

Establishment of a system is recommended whereby prices of electricity, heat, and railroad transportation are automatically adjusted as the price of coal changes. It should be stipulated that electricity, heat, and railroad transportation prices may rise or fall in the amount that the price of coal rises or falls. Price adjustments within these limits would require only a memorandum to the state units concerned, and should the state departments in charge make no dissent within a prescribed period of time, the adjustments would be carried out.

Nowadays the percentage of raw and processed materials distributed to enterprises under plan is of secondary importance, amounting to an average of only between 20 and 40 percent in many cities. These enterprises conduct exchanges at negotiated prices for the most part, and their economic accounting is also done on the basis of negotiated prices. A substantial number of enterprises strongly demand that the two track price system be abolished. The gradual reduction in plan percentages and expansion of negotiated price percentages may continue to be followed, or there can be separate tracks for individual categories of products, the two tracks becoming one within 3 to 5 years for the most part. The new uniform price for the means of production founded on negotiated prices should be a market-regulated price. After 3 to 5 years, some enterprises (such as enterprises providing the means of agricultural production) may still be allowed to continue to obtain raw and processed materials on the basis of original plan, but this would only be a stopgap measure. Action should be taken to create conditions for its elimination at the earliest possible time; otherwise these enterprises might face the danger of being unable to obtain raw and processed materials. For specific important raw and processed materials in exceptionally short supply, franchising could be done, and the price readjusted to an equitable level. Once the two track system has become one for machinery products from monopolistic industries, prices should continue to be set by the state. Prices of such products should also be examined and approved once each year, and a decision made about the extent of readjustment.

In the process of "readjustment" and "removal of restraints" on prices, prices for the means of production should be gradually brought close to international market prices. For raw materials that are imported for the most part, a foreign trade agency price should be instituted for domestic supply. When gradually raising prices of energy and raw and processed materials supplied from internal production, prices should be brought close to

international market prices; however, the price of certain products will remain appreciably lower than the international market prices in order to help strengthen the competitiveness of China's processing industries.

When carrying out means of production price reform, the scale of investment in fixed assets must be controlled. There can be no raising of prices followed by an increase in investment. If investment in fixed assets is controlled while freeing prices for raw and processed materials, prices of raw and processed materials will not be able to rise very much and will not exceed list prices. Since demand will be held in check, prices for the products of processing industries will also be unable to rise very much. Processing enterprises will come under substantial pressure, but most enterprises will not be toppled. On the other hand, it is only natural that some enterprises that are not well run, or in which conditions are too poor, will be unable to withstand this pressure and will be forced to close their doors.

In the process of reforming prices of the means of production, means of production markets will have to be established and perfected. For a small number of products that enjoy a monopoly in sales, only monopoly markets can be set up. The state will set prices for monopoly products, and both producers and dealers in such products will have to sell them at state set prices, and they will have to supply them in unrestricted amounts, or else guarantee supply of reasonable quantities.

B. Prices of agricultural products. 1. Solution to the problem of state set prices of several important agricultural products being too low. At the present time, the overly low prices of several major agricultural products, including grain, for which the state sets prices, has become a major stumbling block in the development of agriculture. When relative returns from major crops such as grain are low, peasant interest in farming declines, and in areas in which the economy is developing rapidly, particularly in areas where township industries are developing rapidly, the conflict becomes more prominent. The country still has to control directly prices of several major agricultural products including grain, and it still has to apply administrative and economic measures to hold down prices so that they do not rise too much. China still does not have the economic strength needed to institute price policies of a support nature. However, the holding down of agricultural product prices has to be gradually relaxed, and support prices ultimately instituted. The current problem is the need to raise as quickly as possible to a relatively equitable level the overly low prices for agricultural products that the state has prescribed so as to mitigate the anomaly of not very high peasant interest in growing grain.

2. Solution to the problem of an overly fast rise in prices of vegetables and other non-staple foods. Prices of vegetables and other non-staple foods have risen precipitously during 1985. If an index of 100 is assigned to the

year 1984, the procurement price index for various agricultural products in 1987 rose by 91.8 percent for vegetables, 105.1 percent for aquatic products, 59.6 percent for poultry and eggs, and 52.5 percent for meat, 23.1 to 75.7 percentage points higher than the overall index. At an index of 100 for 1984, the retail price index for 1987 increased by 87.1 percent for vegetables, 52.2 percent for pork, and 51.4 percent for chicken eggs in a 27.7 to 63.4 percentage point increase as compared with the overall 23.7 percent rise in prices.

There are objective reasons for the rise in prices of vegetables and other non-staple food products; nevertheless, improvements can still be made to slow the overly fast rise as follows: (1) Rural villages that are more distant from cities can set up new vegetable production bases to expand sources of vegetable supply. Wage costs in these places are lower than in suburban areas, so prices can also be somewhat lower. (2) Old vegetable growing bases in suburban areas can run operations on a suitable scale to increase the commodity rate, increase the amounts going to market, and increase comparative returns for growing vegetables, thereby reducing somewhat pressures for a rise in vegetable prices. (3) Cities can set up fresh and live food wholesale markets, improve the level of wholesale market services, launch inter-area flow of products, exchange information, enliven product flow, even out surpluses and shortages, and engage in competition as methods for stabilizing non-staple food prices, all of which hold very great significance. (4) Establishment of a non-staple food risk fund to protect peasants' interests in order to stabilize production. The price subsidies and the distribution methods instituted during the past several years whereby ration coupons are used to limit quantities are temporary measures having fairly numerous shortcomings and should not be adopted for long.

3. Avoidance of large ups and down in agricultural product prices. In recent years, dramatic fluctuations have occurred in prices of quite a few important agricultural products such as various kinds of hemp, sheep wool and goat hair, rabbit fur, hogs, etc. During 1988, silk-worm prices have fluctuated wildly. The reasons may be found in the market. Once price restraints were removed, there was no corresponding establishment of an indirect regulatory system using economic methods and legal regulation such as macroeconomic control, modulation of volume, control of demand, and regulation of tax revenues. A thoroughgoing study of the specific process whereby prices fluctuate is needed to find the relationship among price changes, changes in production and supply, and changes in demand for various commodities, to study their cycles of change, and to make price change forecasts on the basis of production and market changes. When evidence of possible major fluctuations appears, warnings should be issued and specific suggestions for preventive actions made.

C. Price of consumer goods. 1. Gradual reduction of price subsidies. Since 1985, subsidization of prices out of public funds has been maintained at around 29 billion

yuan, down 8 billion yuan from 1984. Of this amount, about 75 percent is used for the direct subsidization of consumer goods prices. Consumer goods price subsidies consist largely of the subsidization of low prices for plan supply of grain and edible oil, price subsidies for non-staple foods including meat, eggs, and vegetables, and price subsidies for civilian burning of coal. Current price subsidies take the form of subsidization of state-owned businesses, residents being subsidized through low sale prices by state-owned enterprises. Such a subsidization method has very many drawbacks. Losses attributable to policy decisions cover up losses resulting from business practices. The system whereby enterprises supply products at low prices while simultaneously operating independently and being responsible for their own profits and losses is contradictory, and it obstructs reform of the commodity circulation system. As a result of price subsidies, there is no choice but to institute a two track system of pricing for certain consumer goods, thereby providing lawless elements with a set up for making ill-gotten gains. Limitations on amounts that may be purchased at low prices inhibits development of the commodity economy, and this state of affairs should be changed in accordance with principles governing commodity economies. With the exception of subsidies for grain rations, within the next 3 to 5 years price subsidies that have endured for years should be basically eliminated. Some of the money now spent for price subsidies should be transferred to a fund for stabilizing prices for use whenever there are wild fluctuations in market prices by modulating volume or by providing temporary price subsidies to entrepreneurs.

2. The problem of straightening out prices of industrial consumer goods. Nowadays markets are regularly sold out of quite a few industrial consumer goods, especially fine quality durable consumer goods, and name brand manufactures. This is directly related to prices for these products not reflecting market supply and demand. The fundamental way to solve this problem can only be further freeing of prices. Freeing prices of these industrial consumer goods can gradually bring into balance supply and demand for these commodities, and it can also widen difficult-to-widen differences in price for differences in quality.

In the process of solving the consumer goods price problem, retail prices will continue to rise, and thus the correlation between wages and prices must be handled correctly. Under ordinary circumstances, the extent of increase in the average annual wage (termed wages) should not be less than the rise in prices, nor can it be greater than the rise in wages plus the extent of increase in the labor productivity rate.

D. Establishment of a real estate market as quickly as possible, and removal of restraints on real estate prices. Ideas for house rent reforms have already been worked out at house rent reform pilot programs currently underway, but it seems that real estate price problems have yet to be solved. The real estate market is currently in a

"non-overt" state. In this real estate market, house prices are shockingly high. The revenue from these shockingly high prices does not go to owner of the land as income for the state, but rather becomes extra income for the seller. Some units use this extra income to solve the housing problems of their staff members and workers; some use it to increase welfare benefits; and some convert it into individual income, and this income is also shockingly large. Therefore, the "non-overt" real estate market should be made overt as quickly as possible through the establishment of real estate exchanges through which both sellers and buyers are required to deal in order to eliminate real estate "speculators."

Summation of National Symposium on Theories of Economic Reform

40060150 Shanghai SHIJIE JINGJI DAOBAO in Chinese 21 Nov 88 p 14

[Responsible editor Tong Hua 4547 2901: "Adopting a Policy of Encouragement to Induce Progressive Study of the Theoretical Aspects of Reform and Development—Summation of a National Symposium on the Theories of Economic Reform"]

[Text] *A national symposium to study the theoretical aspects of economic restructuring was held last month at Beijing. The symposium was jointly sponsored by the CPC Propaganda Department, the State Commission for Restructuring the Economic System, and the Chinese Academy of Social Sciences. The meeting was attended by businessmen, economic theorists, representatives of economic departments, well-known scholars, specialists, entrepreneurs, as well as middle-aged and young theorists. Liu Guoguang [0491 0948 0342], Gao Shangquan [7559 1424 0356], and the deputy director of the CPC Propaganda Department, Wang Weitong [3769 4850 3392], spoke at the meeting. The following is a brief resume of several items that received major attention during the discussions:*

I. Some Basic Theoretical Issues of Economic Reform

Right from the start, China's economic reform was faced with the basic issue of the "new understanding of socialism." The old economic system was built on the foundation of "the thesis of a socialist product economy," which was characterized by a unitary ownership system, materialization of economic operations, a centralization of economic management, and egalitarian principles in distribution.

The new understanding of socialism gained in the last 10 years has led to two basic conclusions: the thesis of socialist commodity economy and the realization that China is still in the initial stage of socialism. How can one ensure a firm foothold and persevere during this initial stage, and how can one develop the new system of socialist commodity economy? It is in these areas that thorough studies are called for on a series of basic theoretical problems.

First, the problem of reforming the public ownership system and property right relations.

Essentially, this problem boils down to the question of how to integrate a public ownership system with a commodity economy. The old public ownership system was well attuned to the product economy of the past, and the private ownership system harmonizes well with commodity economy. How to integrate public ownership with commodity economy may be said to be somewhat like the (?Goldbach conjecture) of economics.

What, then, is the structure of the new ownership system? Two different views were aired during the symposium:

One was a thesis of "coexistence of diverse forms of ownership, with public ownership occupying dominant position." There were again certain differences of opinions among proponents of this thesis, but most participants at the symposium agreed that public ownership economy occupying dominant position need not necessarily mean a quantitative majority. The principal form of public ownership is either a form of shareholding or a system of enterprise ownership.

The other view was the "thesis of a mixed economy." This suggested that the economy be divided into two large sectors, a "state-owned, state-run" sector and a "people-owned, people-run" sector. The former kind was to be restricted to: (1) enterprises of a socially beneficial nature, (2) high-tech industries, and (3) to large-scale enterprises that are beyond the capabilities of the general public to undertake. The latter kind would be the majority. Their relations to the state are merely limited to paying taxes; they are to be truly independent economic entities. Turning ownership and operation over to the people and evolving shareholding are not mutually exclusive, otherwise distribution of stocks between holders of state assets and the stockholding system itself would be mutually exclusive. Within a "people-owned, people-run" economy it would be difficult to differentiate strictly between what is public and what is private; this, then, conforms well with the major world trend of a mixed economy.

Second, problems of the economic operational mechanism.

The goal of reforming China's economic operational mechanism is an integration of plan and market mechanisms, in order to achieve the objective of having "the state regulate the market, and the market guide enterprise."

Liu Guoguang referred in his speech to three shifts in our concept of planning: (1) Planned management is not tantamount to command-style planning; (2) Planned management is not all-inclusive; (3) Execution of plans need not necessarily adopt the system of the plan norms (in particular material norms).

There has also been a change in our concept of the market, since existence of a commodity market alone without a market for key production elements would make it impossible for enterprises to be truly independent in their decision-making processes, the market could then also not function as a perfect regulatory mechanism, and the government's economic administration would also hardly change in the direction of primarily indirect forms of regulation and control.

Economists in general and those in charge of economic policy decisions are more and more realizing that under the conditions of socialist commodity economy, apart from a small sector of naturally monopolistic commodities and the price of labor, which are to be directly controlled by the state, commodities in general and the price of labor will gradually have to be determined by producers and consumers according to market supply and market demand. The process of price formation must, therefore, essentially become a process of automatic formation in the market.

Third, the problem of distribution of income.

Much progress has also been made in China during the last 10 years in the theory on distribution. Primarily, the egalitarian viewpoint has been eliminated, and the principle of distribution according to work has been restored.

Secondly, a new concept has taken shape which "has distribution according to work occupy dominant position, but which also allows a variety of other forms of distribution to be practiced simultaneously." Currently, individual incomes in China are more or less of three types: (1) income from work, (2) income from business management (including income from risk or chance undertakings), (3) income from capital or assets. How are we to categorize and deal with the last two types of incomes? This was precisely a topic of much argument among the participants.

Thirdly, the new concept of income distribution assumes the form of a market-type operation. In the past, what was claimed to be distribution according to work was in reality an egalitarian operation. Work points and wages were tools of administrative distribution, removed from the domain of the market. Now that a labor market has taken shape, the future configuration of wages is bound to become a matter of market operations, i.e. the wage level will be regulated by the relation between supply of labor and demand for labor. Some people, therefore, believe that what we now take to be distribution according to work does not conform to the original idea of it held by Marx, but is a distribution according to the price of labor.

II. Theoretical Problems Regarding Countermeasures of the Reform

After clarifying such questions as "what is to be reformed" and "reforming in what direction," it is still necessary to clarify "how to reform," "what steps must

be taken," and "what road to go," which means that there are still the theoretical questions regarding the countermeasures to be taken in the reform.

First, the question of the economic environment of the reform, or the question of the relation between economic reform and economic development.

A majority of scholars believe that the relation between reform and development has not been treated adequately in the last 10 years. Although we must not wait for a further relaxation in the environment before going on with the reform, we must also not engage in reform and at the same time strive for high-speed development, thereby creating a very strained economic environment. This is so because once an imbalance occurs between total demand and total supply, and in addition a structural imbalance is created at the same time, this is bound to lead to inflation and commodity price increases, as it will also prevent the market mechanism from exercising its normal functions, and will lead to intensified administrative interference, which in turn will leave the reform bogged down in stagnation, or even effect its retrogression.

Second, the question of frictions brought about by formal changes in the system and by maintaining a twofold system.

Because of peculiarities and complexities of its economic reform, China is not carrying out a "one-package" type economic reform, but is rather employing a method of "gradual progression." On this point there seems to have been no argument. However, great differences of opinion arose over the various problems created by the coexistence of the twofold system in the national economy.

For instance, in the matter of business being closely linked with profiteers among officialdom, many believe that contacts between business and government functionaries are unavoidable. Others believe that there are two differences between Western mercantilism and Chinese mercantilism: (1) The former are proponents of the "favorable foreign trade balance" thesis, i.e. earning other countries' money, while China earns money from among its own; (2) The Western countries have not experienced the proliferation of profiteers among officialdom as has happened in China, where it has occurred as an outgrowth of the commercialization of power. It is therefore necessary to give prominence to political reform, and to eradicate commercialization of power and all its concomitant evils, so as to sweep away all obstacles to reform.

Third, what are the major links of the reform?

China's economic reform is a process composed of two intertwining reform movements. One is the reform of the working mechanism of enterprises, at the core of which are their property right relations, and the other is the reform of the mechanism of economic operations, at the core of which are prices.

During the last few years, China's reform has frequently vacillated in its practical performance between the two, at times emphasizing improvement of the mechanism of enterprise business operations, and at other times emphasizing efforts to break down the price difficulties. Practice has proven that existence of a tortuous price structure makes it impossible to have the various enterprises compete on an equal basis, such conditions rather aggravate the inequality of favorable and unfavorable circumstances between them. When the price structure was reformed, the majority of the existing enterprises were unable to accept the reform and pressured those in decision-making positions to again revise the mechanism of enterprise business operations, to make the reform more acceptable and increase profits. As we see it today, the more feasible method is to pay attention to the two intertwining reform movements in equal measure and to proceed harmonious and coordinated development.

III. Some Ideas on Controlling the Economic Sector, Restoring Economic Order, and Overall Deepening of the Reform

(1) The goal for the intermediary period.

Xiong Yingwu [3574 2503 2745] gave three reasons for his view that the Chinese reform ought to decide on a limited objective: 1. China is a "post-feudal socialism," and also has a tight product economy system; it has a large "anti-market force," which is much stronger than in a natural economy; it is quite impossible to convert its economy to a market economy within 10 or 20 years. 2. An examination of the present condition and developmental trend of China's social productive forces allows the conclusion that it will be impossible to fundamentally change the state of shortages of major products before the end of this century. Obviously, complete deregulation of prices under conditions of shortages is bound to bring about monopolies for certain products and steep rises in commodity prices. 3. The intention to integrate organically planned economy and market regulation on the foundation of a public ownership system will still remain merely an ideal and cannot become an accomplished experience. This fact also determines the tortuous and protracted nature of the progress made in the reform.

(2) Regarding the various views on controlling the economic sector and restoring economic order, many persons voiced the following two concerns: One concern was that it would not be possible to effectively stop currency inflation, in particular to stop the steep rise in commodity prices, and doubts were raised as to whether commodity prices could be forced down next year. The second concern was that there would be a return to the old ways, restoration of the old system, and adoption of old measures. Indeed, there is some grounds for these concerns, the crucial point is whether it will be possible to adopt appropriate countermeasures and, furthermore, to resolutely carry them out.

Some participants believed that action on the following points is necessary to control the economic environment, restore economic order, and deepen the reform:

First, a slow-down in the pace of the economic reform must be accompanied by a political reform, which must be firmly taken in hand. Effective measures must be adopted to reduce the organizational structure of government, to realize honesty and high efficiency, to initiate a strict and impartial legal system, and to eliminate decadence and corruption.

Second, policy decisions must be arrived at in a more democratic and more scientific way; we must safeguard against the possibility of again committing grave errors in important policy decisions. For instance, we have early on had valuable suggestions by men of insight with regard to developmental strategy, industrial policy, and financial and monetary policies, but, unfortunately, these suggestions were never transformed into policy.

Third, adoption of a policy of encouragement that would give impetus to progressive research into the theoretical aspects of reform and development, that would enhance our foresight, and reduce the possibility of errors. Of course, social scientists must also aspire to a greater sense of responsibility toward their age; they must courageously explore the major problems in reform and development and make greater contributions.

Analysis of 1979-86 Price Increase

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[Article by Bei Duoguang 6296 1122 1639 of the Comprehensive Development Department of the Ministry of Finance, revised in September 1988: "An Economic Analysis of China's Price Increase During the Period Between 1979 and 1986"]

[Text] Beginning in 1979, China's price level was no longer stagnate but tended to rise. Many scholars had pointed out that the China's recent rise in the price level was caused by some economic reasons as well as factors concerning our deep-rooted systems. However, judging from the economic point of view, it is rather appropriate to separate the influences exerted by the process of normal economic operations from those by the structure of the specific system. To simply analyze two different types of influence by the same method will possibly create confusions among the "clues" for analysis. Proceeding from this viewpoint, I shall analyze in this article how the economic operations would cause China's price level to rise, and what is the process of such a rise. The time frame is between 1979 and 1986.

I. Types of Price Increase

Generally speaking, there are two types of price increase, that is, price increase caused by the demand pressure and that caused by cost. The former refers to the case in

which the demand of an economic department for consumer goods and investment goods is increased as a result of increase of its amount of usable revenue, so that various economic units compete among themselves for a limited supply of goods. The reason that the supply of goods is insufficient is because the available resources have already been fully utilized, or because of the inelastic supply for production (including obstacles that hinder the circulation of resources). Thus, the price level goes up whenever the purchasing power exceeds the available output total of the production capacity. The latter refers to the case in which the price increase is caused by the growth rate of wages which exceeds that of labor productivity. Moreover, there are still some other types of price increase. When summing up, we can classify the specific causes for developing price increase into the following categories: 1. Price increase caused by the demand pressure. (A) Large-scale raise of fiscal deficit (fiscal type); and (B) Sharp expansion of the scale of credit (credit type). 2. Price increase caused by cost. (A) The growth rate of wages exceeding that of productivity (wage type); and (B) Sharp increase in import price (import type). 3. Others. (A) Uneven development emerges in China's production structure (bottle-neck type); and (B) Readjustment of pricing system (policy type). In most cases, the situation is the mixture of the above mentioned causes. For instance, a raise of fiscal deficit may cause an expansion of the scale of credit, so that these intertwined factors push up prices. In an other example, a sharp expansion of credit will be easily absorbed by the productive forces if the production structure of an economy is rational; whereas the demand inflation caused by such expansion of credit will turn contradictions developed at a structural "bottle-neck" of an economy into an imbalanced state in every aspect, if such structure is in an uneven state. Such circumstances can be said that the price increase is caused by the factors of credit expansion and uneven production structure. Between 1979 and 1986, China's economy experienced a process of gradual increase of its price level. During this period, the average annual growth rate of China's price index converted from its national income, which reflects better its overall price level, was 3.6 percent. Its average annual growth rate of general index of retail price was 3.9 percent. These figures are insignificant when compared with to the scope of vicious inflation experienced by some countries in the world. However, we cannot but attach great importance to them when compared to the growth rate of the same indexes during the period from the time when the state was founded to the year 1978. Between 1952 and 1978, the annual growth rate of price index converted from the national income was only 0.54 percent, and the annual growth rate of general index of retail price in the whole society was only 0.7 percent. In the eight years after 1979, however, the annual growth rate of the price indexes was increased by about six times of the previous 27 years. To the Chinese people, who got used to a long-lasting stability of pricing environment, it was a sharp contrast when comparing the previous price increase with the current one. It can be said that the

above mentioned six types of factors played their roles in such process of price increase. The following is a brief analysis of these possible factors.

II. The Role of Fiscal Deficit

We cannot deny the role of government departments in causing the price increase. The total revenue of China's government departments in 1979 was 110.3 billion yuan and its total expenditure was 127.3 billion yuan, reaching a record deficit of 17 billion yuan since the founding of the state. The underlying reason for having such an enormous deficit was that the expenditure for improving people's livelihood was greatly increased, while there was no corresponding reduction in its investment in capital construction. In the process of making up for such deficit, we overdrew 9.02 billion yuan from the People's Bank of China, in addition to making use of the 8.04 billion yuan of fiscal balance brought forward from previous years. The price level was inevitably affected by our overdraft at the bank for fiscal purposes. In 1979, the actual amount of currency in the banking system was increased by 15.62 billion yuan, including 5.57 billion yuan of cash. The growth rate of price index converted from the national income was boosted from 1.38 percent in 1978 to 4.02 percent in 1979, while the general index of retail price in the whole society was increased by 2 percent. This price increase indicates that the time of having a nearly stagnant price level has gone. Among various price indexes, the growth rate of general index of purchase price of agricultural and sideline products in 1979 was the greatest, reaching 22.1 percent. This was mainly because the government departments voluntarily increased the purchase price of agricultural and sideline products in that year, while other prices were still under the basic control. In 1980, however, the index of retail price in the whole society was increased by 6 percent, or 4 percent compared to the growth rate in 1979. If we think that such price increase is related to the government deficit of 1979, we may hold that the increase of retail price may postpone the expansion of government deficit, and the time gap is about one year.

According to the constant international requirements, the actual amount of deficit of China's government departments should be the amount of deficit made known to the public plus revenue derived from government bonds. Therefore, the actual amount of government deficit was 20.59 billion yuan, including 3.53 billion yuan of loans granted by foreigners. According to this requirement, the government deficit in 1980 was as high as over 17 billion yuan. As we adopted measures for increasing the revenue, reducing our investment in economics and construction and cutting our national defense expenses in the years that followed, the total amount of deficit in 1985 dropped to 6.825 billion yuan, so that the fiscal situation made a change for the better. A point that we must point out is that generally speaking, the 1986 financial revenue and expenditure was, to a large extent, formed by depending on transient factors. For instance, the nationwide large-scale examination of

taxation, financial and pricing systems that began in August that year boosted a rather sharp growth in the financial revenue and expenditure. In another example, in the first half of that year, there was a rapid growth of industrial production, part of which was a high output value caused by an excessive import of assembling parts paid by foreign exchange, which boosted the revenue by increasing the turnover of commodities in circulation. However, the fiscal expenditure in 1986 exceeded the budget by a large margin, so that the total amount deficit soared by 20.9 billion yuan.

Beginning in 1979, China's government departments borrowed loans from foreigners, and, commencing from 1981, they raised funds by issuing treasury bonds in China. The actual figures of recent years, however, show that the growth rate of issuance of treasury bonds has been rather slow, and the proportion of treasury bonds to the national income has been decreasing. To make overdraft from the banking system remains the main channel of government departments for making up for their deficits. Calculating the total amount of national income, we can clearly understand the possible influence that may have on the actual economy or the currency economy. Though the absolute value of the total government deficit ranges around 10 to 20 billion yuan, its

proportion to the national income is basically less than five percent, and between 1979 and 1986, there was a tendency of reduction. The proportion of loans granted by banks to the government for making up for such deficits to the overall national income is even less, basically around one to two percent. Hence, we can see that though we should take a correct attitude toward the influence of government deficit on the price level, there is no reason for us to over-estimate the degree of such influence. As a matter of fact, the impact of deficit on the economy as a whole will not be a great one if the proportion of government loans made out to the government for making up for the deficits to the national income is very insignificant. Though the amount of government deficit in 1984 and 1985 was rather small, the increase of price level in 1985 was the most serious one. Thus, we can come to a conclusion that in addition to government deficit, there are also other factors that affect the price level.

III. Impacts Caused by the Demand of Imports, and Influences on Wages

Let's examine the annual changes in prices during the period between 1979 and 1986.

Table 1: Annual Price Changes Between 1979 and 1986
1952 equals 100

Year	Price index converted from national income	Price index converted from revenue of industrial departments	Index of retail price in the whole society	Average wages of staff under ownership by the whole people	Exchange rate	Interest rate
1979	117.29	76.94	124.0	158.1	63.2	42.7
1980	121.37	76.80	131.0	180.1	60.9	42.7
1981	123.60	76.91	134.6	182.0	70.7	42.7
1982	123.43	76.76	137.2	187.4	78.8	61.0
1983	124.80	76.70	139.3	193.9	80.7	61.0
1984	130.87	78.75	143.1	231.8	113.3	61.0
1985	144.50	83.08	155.8	272.0	130.0	67.1
1986	149.60	85.79	165.1	317.0	151.2	67.1

Note:

(1) The exchange rate refers to the estimation of average annual exchange rate of Renminbi to U.S. dollar based on the rates that 1957 equals 100, so that U.S. \$1 equals Renminbi 2.4618 yuan in 1957, and the rate remained unchanged as in 1971.

(2) The interest rates refer to the interest rates on loans granted by banks to industrial and commercial enterprises as working capital.

Source: "Statistics Yearbook of China (1987)"; "Financial Statistics of China (1986)"; "China: Development of the Socialist Economy" by the economic investigation group of the World Bank; and "An Introduction to Money Banking" by Zhao Haikuan [6392 3189 1401].

The ascending sequence of the six price indexes enlisted in Table 1 in terms of growth rate is: exchange rate, monetary wages of staff, interest rates, retail price, price converted from the national income, and price converted from the revenue of industrial departments. The

exchange rate of Renminbi to US dollar increased from U.S. \$1 equals Renminbi 1.5550 yuan to U.S. \$1 equals Renminbi 3.7221 yuan, or increased by 139 percent. This indicates the devaluation of Renminbi against foreign currency. The possible reasons for having this

situation are: on the one hand, the U.S. dollar was relative strong in those years, and, on the other, the money supply in China reached an excessive level. Judging from the exchange rate and China's price level, an increase in China's money supply would push up the price level, and would inevitably cause the exchange rate to rise. At the same time, following the rise of exchange rate, the price of import commodities would be increased so that when the import demand became inelastic, China's price level was further hit by the price of import commodities, thereby causing an import-type price increase. We must not ignore the role played by the import factor in these 8 years. Of course, proceeding from the specific conditions of China, its soaring exchange rate was mainly caused by the increase in money supply.

Economists generally hold that wage is closely related to the price level. A comrade conducted a quantitative analysis on the actual conditions in China, and held that to say the least, wage was closely related to the price level between 1970 and 1985, and the decisive coefficient showing the extent of their correlations was as high as 0.9852.¹ However, one cannot get the causality between wage and price level simply by depending on such analysis on correlations. The economists often have a heated debate on the issue whether the price level is affected by wages or just the other way round. In fact, proceeding from the viewpoint of economic analysis, wage and price level are prices of different commodities, and a simple correlation analysis cannot point out what kinds of price plays the role. Proceeding from China's situation over the years, Table 1 shows that the growth rate of wages received by staff nearly exceeded that of the price level every year. The average monetary wages of staff under the ownership by the whole people (that is, the index of nominal wages) in 1986 was 100 percent over that in 1979; whereas the general index of retail price in the whole society was only increased by one-third during the same period. Hence, we can see that compared to the price level, the factor of wage played a more important role. In 1981, the growth rate of price level exceeded the average growth rate of wages, and the growth rate of wages in the following years was more rapid. We may envision the role played by a certain kind of spiral increase in wages and price level, as well as the psychological reaction of the household sector to price changes during the period of price increase. Though we acknowledge that wages did play a role in pushing up the price level, the actual price level was far behind the level of wages. This may be mainly because the circulation speed of currency during these eight years was sharply reduced, and the household sector tended to have more savings. We shall further discuss this issue in the latter part of this article.²

Between 1979 and 1986, China's interest rates were also greatly increased. This included the increase in the wake of price increase, though part of it was done automatically. Let's take the interest rates on loans granted to industrial commercial enterprises for working capital as

an example. In 1986, such rates were increased by 57 percent when compared to those in 1979, and its growth rate exceeded those three price indexes enlisted in Table 1. This indicates that the banking system began attaching great importance to the role of interest rates in readjusting their money supply. Of course, the interest rates cannot truly reflect the supply and demand of capital because they are, to a large extent, subject to human control. Though the shortage of capital faced by China is, and will be, a serious practical problem, China's present interest rates are one-third lower than those in 1952.

The three price indexes enlisted in Table 1 basically moved in the same direction, and there was little variation among them. For example, they saw the sharpest growth rate in 1985, and the difference of their growth rates was only 1 percent.

IV. The Driving Force of Money Supply and Its Purchasing Power

In addition to the influences of the above mentioned factors on price level, we should attach greater importance to the relations between money supply and price level. In accordance with the viewpoint of genuine theory on the quantity of money, a change in the quantity of money determines changes in the price level. The "Cambridge formula" expresses this as follows: M_s is equal to kPY , in which M_s is money supply; Y is the actual national income; P is the average of prices of commodities and labor services reflecting the national income in kind; PY is the national income expressed in terms of money, or the national income in short; k represents the ratio of money kept by the people in society to the national income. Therefore, kPY represents the money demand of the whole society. Followers of the money supply theory hold that Y and k are rather stable. Hence, P must go up when M_s increases.

Judging from the direction of movement, the money supply of China between 1979 and 1986 was consistent with its price level. A regressive analysis shows that the correlation coefficient between the two was very high.³ It seems that it is in line with the viewpoint of the money supply theory. However, a significant distinction between the two is that in those eight years, the growth rate of money supply in China exceeded that of its price level by a large margin.

Between 1979 and 1986, the growth rate of money supply increased by five times, in which the average annual growth rate of cash supply was 24.4 percent, while the average growth rate of both M_1 and M_2 is 26.7 percent.⁴ Proceeding from the movement of prices reflected by the aforesaid Table 1, however, the average annual growth rate of those three price indexes is less than 4 percent. This indicates that the relations between money supply and price level are not so simple as it is described by the money supply theory. If we continue to analyze the situation by using the "Cambridge formula," we may, to say the least, take that an increase in M_s not

only pushes up P, but may also push up Y or K. In other words, an increase in Y and K may absorb the excessive pressure of M_1 on P. Undoubtedly, this indicates that it is an erroneous viewpoint of the money supply theory that Y and K are relatively stable.

Between 1979 and 1986, the growth rate of index of M_1 , which is closely related to the circulation of commodities, dropped on two occasions in 1981 to 1982 and in 1985 amid the process of having a rapid growth. This was mainly because the monetary policies were intensified during this period. The same index also experienced a drop in two other occasions when the price index was going up, only that it later dropped in the wake of a drop of prices (in about 1982 to 1983 and in 1986). Thus, we can see that we should take into consideration the factors of changes in monetary policies, as well as the scope of price control, when analyzing the relations between money supply and prices. In fact, under the conditions that prices are subject to strict control, the situation of money supply may be out of line with that of prices. We cannot but acknowledge that since 1979, the human factors still played a significant role in suppressing the growth rate of price index, which fell far behind that of money supply.

To implement price control policies when expanding the money supply will bring about a sharp drop in the speed of money circulation. To the household sector, this will, on the one hand, bring about more cash deposits at banks as savings; and on the other, the amount of cash in hand, or the ratio of cash to revenue (k), will be increased. The calculation of 1986 national revenue based on money terms shows that it was 1.5 times more than that in 1978. However, the money supply grew at a more rapid speed, that is, about five times, during this period. As the increase in price index was relatively slow, the direct result of an increase in money supply was an increase in the value of K. We may realize such obvious trend in Table 2. Part of the inflation of currency that exceeded the price increase was reflected by the speed of money circulation, that is, a reciprocal increase in the value of K. We distinguished the money supply into indexes of cash, M_1 and M_2 , which is in a broader sense; and observed changes in the circulation speed of different kinds of money in the course of a continuous increase in the national income. Between 1979 and 1986, changes in the value of K of these three indexes were almost the same. That is, their growth rate was 13 to 15 percent between 1979 and 1980, the growth rate of their value of K saw a drop between 1981 and 1982, there was a negative growth rate of 0.1 percent by the end of 1982 in the value of K_1 , which is corresponding to the M_1 , before such growth rate bounced back in 1983; both the K_c and K_1 reached their 8-year peak level in 1984; the three indexes dropped again at the same time in 1985, in which K_1 was decreased by 20.9 percent when compared to the previous year, and K_2 was decreased by 1.7 percent; and the three bounced back again more quickly in 1986. The movement of value of K shows that the correlations among cash, M_1 and M_2 are very closed, so

that the value of K will go up in the wake of an increase in revenue. At the same time, to a larger extent, the increase in the value of K absorbed the inflation of currency. If we integrate the above mentioned changes in prices, however, we can find that, in the respective changes in the value of K and the price index, there is no obvious indication that the growth of one of them means the decline of another. In particular, before 1984, both the value of K and the price level fell from the 1979-1980 peak level to their bottom level during the 1981 and 1982 deflation period. It was not until 1985 that the price level climbed rapidly did the value of K see a dramatic drop. A possible reason is that the national income of that year was increased on a large scale (the 1986 national income was increased by 12.7 percent when compared to the previous year). Another possible important reason is that people developed a strong psychological feeling that prices would further go up when the price level was sharply increased, and the consumption demand dramatically grew, so that the money circulation speed was quickened and the value of K dropped. The latter conforms in a better way the situation described by the theory on money supply, whereas the former (the case before 1984) shows that both pricing control and monetary deflation policies play a decisive role in the money circulation in China.

The purchasing power of money supply often drops when prices increase. From Table 3, we can calculate the growth rate of purchasing power of money supply on the basis of the three price indexes during the eight years period, and observe that the total purchasing power of money also grew at a relatively rapid pace. When we compare the index number of growth of purchasing power to the index number of issuance of currency (see Table 2), however, we can get the strong impression that the purchasing power grew at a much slower rate than the index number of issuance of currency. Compared to 1978, the 1986 index numbers of issuance of cash, M_1 , M_2 were respectively increased by 470 percent and 560 percent (both M_1 , M_2 share the same percentage), whereas the index numbers for the total purchasing power of cash, M_1 and M_2 calculated on the basis of the price index converted from the national income in the same period were only increased by 330 percent and 400 percent (both M_1 , M_2 share the same percentage). The differences were respectively 140 and 160 percent. This indicates a devaluation of currency. Of course, the extent of devaluation was insignificant when compared to the expansion of money supply. This is mainly because of a relatively sharp increase in the national income, a relatively slow pace of price increase, and a slow down of the above mentioned circulation speed of money during that period. A calculation of money supply on the basis of different price indexes shows that there is no significant discrepancy between the calculation on the basis of price index converted from income, and that on the basis of retail price, whereas there are discrepancies between these two items of calculation and the calculation of index of purchasing power on the basis of exchange rate, in a range of about 200 percent. This indicates that the devaluation of Renminbi against foreign currencies is more serious than its internal devaluation. This phenomenon began in 1984 when the money supply was sharply increased.

Table 2: Money Supply and Speed of Money Circulation (1979-1986)

1978 equals 100

Year	National Income (1)	Cash (2)	K _c (3)	M ₁ (4)	K ₁ (5)	M ₂ (6)	K ₂ (7)
1979	111.3	126.3	113.5	126.9	114.0	128.5	115.5
1980	122.5	163.3	133.3	158.4	129.3	162.0	132.2
1981	130.9	186.9	142.3	184.5	140.9	191.4	146.2
1982	141.6	207.1	146.3	199.3	140.7	217.4	153.5
1983	157.1	249.9	159.1	236.1	150.3	262.4	167.0
1984	187.7	373.6	199.0	366.3	232.3	368.1	196.1
1985	232.8	465.9	200.1	427.8	183.3	448.5	192.7
1986	258.8	574.7	222.1	665.4	257.1	662.3	255.9
1978	3010.0	212.0	0.07	580.4	0.19	889.7	0.3

Note: Figures in columns (1), (2), (4) and (6) of 1978 are absolute numbers (unit is 100 million yuan). Figures in columns (3), (5) and (7) are the result of figures in columns (2), (4) and (6) divided by the national income.

Source: "Statistics Yearbook of China (1987)" and "International Financial Statistics" Dec 1981, July 1987.

Table 3: Purchasing Power of Money Supply (1979-1986)

1978 equals 100

Year	Basing on price index converted from national income			Basing on general index of retain price in the whole society			Basing on index number of exchange rate of renminbi to U.S. dollar		
	C (1)	M ₁ (2)	M ₂ (3)	C (4)	M ₁ (5)	M ₂ (6)	C (7)	M ₁ (8)	M ₂ (9)
1978	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979	121.4	122.0	123.6	123.8	124.4	126.0	136.0	136.7	133.4
1980	151.8	147.2	150.6	151.1	146.5	150.0	182.5	177.0	181.1
1981	170.6	168.3	174.6	168.8	166.7	172.9	179.8	177.5	184.1
1982	185.3	182.0	198.5	183.6	176.7	192.7	178.8	172.0	187.7
1983	225.8	213.3	237.0	218.3	206.2	229.2	210.6	199.0	221.2
1984	321.8	315.5	317.1	317.4	311.2	312.7	224.3	219.9	222.6
1985	363.7	334.0	350.1	363.7	334.0	350.1	243.7	223.8	234.6
1986	433.1	501.4	499.1	423.2	490.0	487.7	258.6	299.4	298.0

Note: C means cash. Figures in columns (7), (8) and (9) of 1978 are estimation basing on the exchange rate of U.S. dollars to Renminbi at 1:1.6747. Source: "Statistics Yearbook of China (1987)" and "China: Development of the Socialist Economy" by the economic investigation group of the World Bank.

V. Readjustment of the Pricing System

If one says that China's price level was basically stable before 1979, this state of stability was ended on 1 March 1979 when the Chinese government decided to raise the purchasing price of some agricultural and sideline products. The purchasing price of 18 kinds of the products were increased on this occasion, at an average rate of 24.8 percent. Such measure for raising the price made remarkable achievements in narrowing the price scissors, improving the actual income of peasants, and mobilizing their initiative in production development. Proceeding from the viewpoint of capital circulation, however, such positive effects were unlikely permanent ones. At the same time when the purchasing price was increased, the government set a basically stable retail

selling price, and made up for the difference by means of subsidies. This short-term approach was favorable to bring the price level under control. However, government deficit would become inevitable if the government subsidies were increased and they were not substituted by a reduction of other expenses of the government. In fact, in 1979, the government departments turned one billion yuan surplus of the revenue and expenditure of the previous year into more than 20 billion yuan deficit (including revenue derived from debts). Such deficit, as well as the accumulative effects of money, eventually exert an increasingly heavy pressure on the price level. In the long run, the price level will continue to rise. Particularly, when the high tide of production caused by the first price increase subsides, the positive effects of improvement of the productivity will be replaced by the

negative effects of the rise of price level. In fact, the positive results of price readjustment will eventually be eliminated by two main factors in the long run. The first one is that when the relative price readjustment eventually pushes up the price level, the positive effects produced by such readjustment will gradually diminish and fade away, but its effect of pushing up prices remains effective. The other one is that the relative price readjustment cannot replace substantial changes in the production realm (such as technological innovation, production organization, marginal profits and so on), and we may envision that the marginal production effectiveness brought about by the price readjustment gradually diminishes.

Facts have shown that after the purchasing price of agricultural and sideline products was readjusted in 1979, the selling price of such products began moving up after a three to four months long price control. By the end of July 1979, the government decided to push up the price of staple and non-staple food, as well as major consumer goods made of non-staple food, except for grain, cotton, oils, sugar and some daily necessities. In the years that followed, any increase in the purchasing price of agricultural and sideline products, as well as the ex-factory price of industrial and mineral products, was, after a short delay, accompanied by a further increase in price in the wake of the rise of selling price in the market. It was not until 1986 when there was no more major plans of price readjustment, but the price still went up. This indicates that any price readjustment will eventually become a factor for pushing the price level, be it in a short or long run.

VI. "Bottle-Neck" in the Economic Structure and Conclusion

A "bottle-neck" in the economic structure develops as a result of long-term accumulation of various types of pressure. A typical "bottle-neck-type price increase" took place between the end of 1984 and early 1985. In 1984, China's total investment in the fixed assets of the whole society was 183.3 billion yuan, increased by 46.4 billion yuan, or 33.9 percent, when compared to the previous year. The percentage was 25.6 more than the previous year after deducting it from a non-constant factor of investment of peasants in productive fixed assets (which was not included in the figures of the previous years), showing that it was the year that saw the most rapid growth since 1979. The growth rate of investment exceeded that of gross social output, which was 13.1 percent, national income, which was 12.1 percent, and fiscal revenue, which was 17.3 percent, by a large margin. It was also one of the national economic realms that saw the most rapid growth. The growth rate of investment in processing industry was greater than that in basic departments. In 1984, the proportion of investment in processing industry to the capital construction and renovation projects undertaken by units owned by the whole people was increased by 32.1 percent when compared to the previous year; whereas

the proportion of investment in raw and processed materials was only increased by 14.2 percent, and the proportion of processing industry investment to investment undertaken by town and township units was more than 40 percent. The proportion of processing industry investment to the rural collective investment was also very high. Such structure intensified the contradiction that the basic departments (such as energy, transport, raw and processed materials industries, and so on) were more backward than the processing industry, thereby turning the basic departments into a "bottle-neck" of the economic development.

We may take the following as a description of the development of the "bottle-neck-type price increase." First, in order to meet the needs for a rapid growth, the scale of monetary credit is quickly enlarged, forming a new purchasing power of society, or a rapid increase in the aggregate demand. It thus has impacts on consumption and investment, so that the demand for consumption is inflated, and the scale of investment is enlarged. Later, in order to meet the rapidly developing consumption demand, industries producing consumer goods must be expanded. While an expansion of such industries depends on additional processing equipment, as well as the capability of such basic departments as power and transport departments, which is more important, pressure on such departments is thus formed. At the same time, an excessively enlarged scale of investment spreads the investment sum too thin among the consumer goods industry, processing industry, the basic departments and so on. In addition, an expansion of the former two also depends on the availability of the latter. In particular, China's processing industry exerts most pressure on the basic departments as it consumes large amount of energy, is inefficient and has a high transportation cost. Thus, we can see that when the aggregate demand inflates, the main burden will eventually be on the basic departments in order to help the aggregate supply promptly catch up with it. Then, we may try to alleviate the contradiction by using foreign resources if we assume that the price level remains unchanged, and that the supply of basic departments is so inelastic that they cannot meet the demand for growth in various areas. Therefore, we import consumer goods, finished products, and even products handled by the basic departments such as rolled steel, glass, timber and so on. Consequently, the foreign exchange reserve of the country quickly drops. As there is a limit to the foreign exchange reserve, even foreign resources cannot help us eliminate the inflation of aggregate demand when it reaches an excessive level, so that the pressure on inflation switch onto the price level, and thus comes the inflation.

The basic departments become the "bottle-neck" of the development because of their characteristics, that is, their short-term capability of forming production is limited, and their supply is inelastic. If it takes time to

expand the demand, the elasticity of supply from these departments will be strengthened. In other words, all kinds of "bottle-necks" can be avoided through the necessary readjustment of resources if the speed of expansion is very slow. Such utopian environment does not occur in our daily life, but one may easily make the "bottle-neck" phenomenon out of control. Thus, we can see that even when there is a capability of excessive production in an economy, the phenomenon of shortage will spread rapidly in all directions, and "bottle-necks" will develop in the course of economic development if the expansion of demand is too rapid, the output cannot promptly react, and the production structure is very uneven like China, in which some basic departments like energy, transport and telecommunications are already overloaded. Therefore, we may conclude that an "uneven" state of economic structure often becomes an important and hidden factor for developing an all-round price increase.

To put it in a nutshell, it is obvious that China's general price level between 1979 and 1986 moved in an upward direction when compared to that in the previous two decades and more. There are several factors contributing to such tendency, including fiscal deficit, import demand, wage level and so on. But the most important one is the excessive growth rate of money supply during these eight years. Of course, if we reveal the hidden factors, it shows that the uneven structure of production and investment, as well as inefficiency arising therefrom, provided the suitable environment for the development of price increase. An uneven money supply and demand inevitably upset the balance in the credit supply and demand, and thus upset the balance in the supply of and demand for goods and materials, and caused the price level to increase. However, as the national income during this period was greatly improved and pricing was subject to government control (though the scope of such control is reducing), the price increase and the growth of money supply were relatively minor. Under these circumstances, a direct result of an increase of money supply will, to a larger extent, lead to the a drastic drop in the circulation speed of money and the amount of cash in hand. Of course, the purchasing power of the money supply will be diminished in the wake of an excessive issuance of currency and the price increase.

Footnotes

1. Zhang Fengbo [1728 7685 3134], *An Analysis on China's Macroeconomics*. The same study shows that the decisive coefficient of correlations between price level and wage was 0.3479 in the period between 1952 and 1968.

2. That wages push up prices is valid under the condition that the growth of wages exceeds that of labor productivity. Between 1979 and 1986, which is the period under investigation, the labor productivity (of industrial enterprises owned by the whole people practicing independent accounting) was increased by 38.8 percent, whereas

the level of wages (of staff hired by units owned by the whole people) was increased by 120 percent. Thus, it seems that the conclusion that wages push up prices is valid. In a longer time frame, however, such as the period between 1952 and 1986, the labor productivity was increased by 269 percent, whereas the level of wages was increased by 217 percent. Obviously, one cannot come the conclusion that wages push up prices. A possible explanation for this is that the rapid increase in the level of wages after 1978 manifested the nature of making up for the excessively low level of wages in the previous years, so that the price increase after 1978 had, to a larger extent, an accumulative effect of the protracted suppressed price level of the past.

3. In accordance with the study by Zhang Fengbo, the correlation coefficient between cash and price index converted from the national income between 1977 and 1986 was as high as 0.985.

4. M_1 refers to the sum of cash and enterprises' deposits; whereas M_2 refers to the sum of M_1 , savings deposits in towns and townships, and deposits in rural areas.

PROVINCIAL

Symposium on New Order of Socialist Commodity Economy

'Great Topic, Grand Undertaking'

40060164 Shanghai SHIJIE JINGJI DAOBAO in
Chinese 28 Nov 88 p 10

[By correspondent Gu Weiping 7357 5898 1627]

[Text] The Propaganda Department of the Heilongjiang Provincial CPC Committee, the Provincial Office for Economic Structural Reform, and our own newspaper jointly held a symposium on the "New Order," in the belief that it is not only necessary to put forward the objectives of this most important and great topic of present-day China, but equally necessary to bring it to realization in our practice.

Our correspondent Gu Weiping reports from Harbin that as an expression of the deepening development and successful achievement in the reform of the political and economic structure, and as a most important topic of present-day China, a topic which is of theoretical as well as practical significance, the establishment of a "new order of a socialist commodity economy" is now becoming a huge project of social engineering. On 25 October, the Propaganda Department of the Heilongjiang Provincial CPC Committee, the Provincial Government's Office for Economic Structural Reform, and our own newspaper jointly held another symposium on the "New Order," following similar symposiums previously held at Wuxi, Guangdong, Liaoning, Jilin, and Beijing.

All participants at the symposium were agreed that it is most important presently not only to set out the objectives, but also to realize the establishment of the "new order" in our practice. In pursuing the reform in greater depth, we shall continue to take the "criterion of productive forces" as our starting point, and in addition require a whole set of laws, policies, institutions, and norms for social conduct to be adopted. Establishment of the "new order" is therefore bound to be a protracted and arduous affair, which will require much painstaking work.

The symposium was agreed that there are two extremely important questions which will arise in the course of establishing the "new order," questions which must be specifically studied and solved. One is how to gain, scientifically approached, an understanding of socialism and capitalism; we must study the relationship between the two, whether it is the traditional relationship of "each doing its own thing." Marxism needs to be further developed, and the modernization of Marxist economics must derive nourishment from a variety of sources. We must courageously introduce and employ some of the enlightened achievements of capitalism, and break down the feudal elements of pre-capitalism in the present social phenomena. The other question is the problem of raising the quality of the people. The decline of the quality of the entire people is already endangering to a large degree China's "membership in the global community." Man is the most dynamic element among the productive forces; his is the decisive power in social development and progress. Through establishment of the "new order," we must raise the political, moral, cultural, and psychological qualities of the entire people, and as a consequence shall derive increasing benefits, improve the mental attitude of the nation, and accelerate structural changes and a deepening of the reform.

The symposium was presided over by Qi Guiyuan [2058 6311 0337], member of the Standing Committee of the Provincial CPC Committee as well as head of the Propaganda Department of the Provincial CPC Committee, and Lu Ping [7120 1627], deputy editor-in-chief of our own newspaper. The provincial vice governor, Du Xianzhong [2629 7359 1813], and the deputy secretary of the Provincial CPC Committee, Zhou Wenhua [0719 2429 5478], attended the symposium and gave important speeches. Leaders from working departments and well-known entrepreneurs of Heilongjiang gave speeches on particular subjects.

Using New Order as Guiding Principle
40060164 Shanghai SHIJIE JINGJI DAobao in
Chinese 28 Nov 88 p 10

[Article by Du Xianzhong 2629 7359 1813, vice governor of Heilongjiang Province: "The New Order of a Socialist Commodity Economy Is Guiding Principle for State, Market, and Enterprise Operations—Greatest Difference Between Commodity Economy Order and Product Economy Order Is the Introduction of the Market Mechanism and of the Legal Mechanism"]

[Text] The new order of a socialist commodity economy is the value norm and conduct rule that has to be applied to all operations of the socialist commodity economy.

We may also call it the guiding principle or norm for all operations of state, market, and enterprises. It has at least four components: 1) It is guideline or norm for all operations of state, market, and enterprises; 2) It is the norm for market transactions of enterprises or other economic subjects; 3) It is a system that legally guarantees the interests of economic subjects; 4) It provides the people with a mode of thinking and a value standard. Its main function is to guarantee that fair competition and exchanges at equal value are fully realized in all operations of the commodity economy. The greatest difference between the socialist commodity economy and the product economy is the introduction of the market mechanism and of the legal mechanism. A high degree of power centralization and the administrative ways of economic life are the major basis on which the product economy could maintain itself. Its all-embracing command-type planning and its all-powerful administrative measures made up the entire set of norms that governed the product economy, and as such, therefore, formed the largest obstacle to a development of a commodity economy. The fundamental difference between the socialist commodity economy and the modern capitalist commodity economy is the configuration of interests of the subjects concerned, and a difference in the patterns of ownership of the social assets. The former is based on a diverse ownership system with public ownership in dominant position, while the latter is based on a mixed ownership system with private ownership in dominant position, but both draw support from economic, legal, and administrative measures to maintain their order, and both, furthermore, fully develop and employ market and legal mechanisms. In this sense, the modern capitalist commodity economy is of great significance as a method from which the socialist commodity economy, which China is now establishing, can draw lessons.

Although the new system of organization, which would conform to the development of a commodity economy, has not yet attained a leading position in many places during the 10 years of reform, it has affected and influenced changes in economic structure, and is, furthermore, on the upswing. However, the collisions, frictions, contradictions, and difficulties that have unavoidably arisen in the course of the replacement of the old by the new system and in their confrontations, are now on the increase and are becoming increasingly frustrating to the pursuit of economic development and to an intensification of the reform. If we do not act as quickly as possible to establish the new order, it will not only become impossible to attain a socialist commodity economy, but is also bound to lead to chaos, and may even compel a retreat to the old system. The most elementary need to accelerate the shift from product economy to commodity economy, from the old to the new system, is that we must firmly adhere to the main policy line of establishing the new order of a socialist commodity economy when promoting the various items of the reform at key points and in proper coordination. World history also shows that at any stage of changing the

economic system, it is necessary to determine appropriate economic countermeasures. Establishment of a modern system of commodity economy is a fairly protracted historical process. Conditions in different countries are not altogether the same, but in one point they do agree, namely that every country makes efforts to institute economic measures necessary to protect economic stability and promote the growth of the new system.

Determination, Strategy Termed Essential

40060164 Shanghai SHIJIE JINGJI DAobao in Chinese 28 Nov 88 p 10

[Article by Xiong Yingwu 3574 25023 2745, director, Institute of Economics, Heilongjiang University: "Show Determination and Resourcefulness To Take Radical Action—Find Out What the 'Malady' Is and Apply the Right Medicine"]

[Text] Controlling the economic environment and restoring market order are the preconditions for an overall intensification of the reform. Otherwise, we will not be able to make the slightest progress in the reform.

I believe the first thing necessary is to find out what the "malady" is and to apply the right medicine. What are the causes for the present deterioration of the economic environment and the breakdown of market order? There are at least the following:

First, this state of affairs is related to the coexistence of the old and the new systems. The shortcomings of the old system have been fully revealed, but only feeble effects have been shown by the new system, as a consequence of which macrocontrol was lost, activities of profiteers became a troublesome phenomenon, etc.

Second, errors were committed in certain macroeconomic policies. For instance, the pursuit of high-speed economic development during the period of reform aggravated the imbalance between total demand and total supplies, especially the organizational imbalance, and rapidly intensified the shortages of energy sources, transportation, and raw and semiprocessed materials, which in turn induced sharp rises in commodity prices. Inappropriate financial and monetary policies were the direct causes of currency inflation and steep increases in commodity prices.

Third, non-economic factors. For instance, the commercialization of power served as the hotbed from which official profiteering grew rapidly and profusely.

I propose: First, a slow-down in the pace of the reform and taking political reform firmly in hand. The present political reform must, first, stop the decadent behavior of government functionaries, and second, truly separate government administration from enterprise management, thus destroying the objective basis for the commercialization of power.

Second, to render the decision-making process more democratic and scientific. In the past few years, men with insight have submitted many proposals, which are now being proven correct, but which, unfortunately, were disregarded and never adopted. On the contrary, some erroneous ideas were indeed adopted, such as the pursuit of speedy economic development during the period of reform, and, in line with this, a policy of budget deficits and currency inflation. In the future, we must accept this lesson and have the decision-making process rendered more democratic and more scientific.

Third, to implement truthfully the principles of academic freedom and of letting a hundred schools of thought contend, to encourage men in all walks of life to start out from the realities of China in their efforts at progressive research on the theoretical aspects of reform and development. As the historical experience shows, the indiscriminate copying of Soviet experiences brought us great losses. It would be equally wrong to imitate indiscriminately all Western methods. I therefore suggest that the Chinese reform set itself only a "limited objective" for the present century.

Changed Perception in Financial Sector

40060164 Shanghai SHIJIE JINGJI DAobao in Chinese 28 Nov 88 p 10

[Article by Sun Guilan 1327 2719 5695, deputy director, Finance Bureau, Heilongjiang Province: "A Change Must Take Place in the Ideological Concepts Among Financial Circles"]

[Text] Promoting establishment of a new order of commodity economy, and adapting to it, is one of the central tasks of the financial sector, today and for several years to come. The key to accomplishing this task is to realize the following changes in ideological conceptions and in work methods:

First, with regard to financial receptiveness, a shift must be effected from passively meeting the demands, that the reform is making on finance, to an attitude of actively enhancing financial receptiveness. The main way to establish the new order of commodity economy is reform, and its key demand is to find a solution for the difficulties encountered in commodity prices and in workers' wages. To gain the anticipated economic benefits in whatever kind of a reform, a "short-term price" will have to be paid. First comes investment, then comes production, and there is a temporal interval in between. As the reform is intensified, the factor of reduced revenue and increased expenditure will become increasingly evident in the financial sphere. This will demand, as far as finance is concerned, that receptiveness toward the reform be raised, to ensure the "short-term price" and the financial resources needed when reform measures will make their debut. If no prudent preparations are made, and if there is only passive acceptance of the

demands of the reform on financial resources, there is the possibility that the financial administration will become overloaded and run into red figures, which will adversely affect the reform.

Second, in making financial resources widely available, a shift has to take place from giving preference to heavy industry at the neglect of commerce and agriculture to an attitude of attaching equal importance to industry, commerce, and agriculture, also a shift from giving preference to state-run enterprises at the neglect of collectives and enterprises of individual entrepreneurs to an attitude of making financial resources available equally to state-run enterprises, collectives, and enterprises of individual entrepreneurs. It is necessary to free ourselves completely from "leftist" concepts and to break with the old restrictive convention of the "doctrine of family background."

Third, in using financial and taxation levers, a shift must take place from having them function in specific cases or only partially to an attitude of applying them in coordination with other economic levers, comprehensively and all-embracing. The reform is making new and higher demands on many sectors, including the financial and taxation sectors, for a more comprehensive use of economic levers, and we must be fully prepared to make a success of all work required in this connection.

Firm Lending Policy

40060164 Shanghai SHIJIE JINGJI DAOBAO in
Chinese 28 Nov 88 p 10

[Article by Wang Xiang 3769 4382, director, Heilongjiang Provincial Agricultural Bank: "Tighten Up Banking Operations:"]

[Text] Finance is the thermometer of economic activity; it infiltrates every link and sector of the national economy. Looking at current financial work, we see several troublesome phenomena existing side by side: an overheated development and unsatisfactory returns, a shortage of credit funds and an excessive retention and use of funds. The excessive amount of currency in circulation, the steep increase in the volume of credits, inflated credits, and investment starvation have all contributed to a currency inflation that is growing ever more serious, and which urgently calls for the restoration of a sound financial order. A sound economic environment is inseparably linked with the financial environment, and the establishment of a new economic order must first of all restore financial order.

A thorough change is required in the concepts on the supply system. The existence of the "big pot" from which everybody is feeding, the improper functioning of the banking lever, and ineffectual supervision, are causes for the constant deterioration of the state of excessively retained and used credit funds, of unsatisfactory returns, and of slow turnaround of funds. As this system of supplying credit funds has been allowed to go on for a

long time, it has seriously dispersed available funds and resulted in a huge wastage of funds. Where pressure was to hold things down, it became impossible to hold things down, where assurances should have been provided, the assurances could not be given, funds were dispersed, and returns declined. Credit inflation aggravated currency inflation. To get out of this dilemma, and as an urgent expediency, it is necessary to change the concepts of financial supplies throughout the entire society. As far as banks are concerned, the specialized banks must be made to operate in the manner of commercial enterprises, their autonomy in business operations must be enhanced, and banking business activities must start out in a macroeconomic spirit, must accept development of the productive forces as criterion, and must have at their core the concern for adequate profits. Banking operations must be tightened up; where there are profits, one must be ready to place investments, but unprofitable operations must be resolutely stopped. Credits must be stopped as soon as it is discovered that the state's energy, destined for key construction, is being dispersed, and that circulating capital is diverted to out-of-plan capital construction. According to the rules of the commodity economy, what is viable shall be supported, and what is inferior shall be restricted. Credits must not be granted to enterprises whose products are of inferior quality and highly priced, and which compete for raw materials and capital with large state enterprises. Unprofitable enterprises that deserve to be declared bankrupt shall indeed be declared bankrupt, and the life of such enterprises must not be prolonged by granting them credit.

On Deepening Price Reform

40060164 Shanghai SHIJIE JINGJI DAOBAO in
Chinese 28 Nov 88 p 10

[Article by Zhang Liangbin 1728 0081 1755, director, Provincial Institute for Commodity Price Research: "Price Rectification, a Demand That Must Be Part of the Establishment of the New Order"]

[Text] Establishment of the new order of a socialist commodity economy is in essence: 1) Adopting as generally valid the principles of the socialist commodity economy, namely exchanges at equal value and open competition. 2) Gradually implementing the rule that "the state regulates the market, and the market guides enterprise" as the mechanism for all economic operations. 3) Setting up corresponding rules and regulations, institutions, moral norms, and other restrictive mechanisms.

We must continue to deepen price reform. First, we must further rectify prices. As far as this province is concerned, the most conspicuous problems are prices for primary products are inordinately low, the need to realign price ratios, and the distortions, as between plan and out-of-plan prices, brought about by the double-track system of pricing. Solution of these problems must be speedily brought about in the course of deepening the reform. Second, the sphere of state-determined prices

must be reduced, and the sphere of market regulation must be extended. Third, we must start out from the consideration of what is beneficial for the establishment of a new order of socialist commodity economy in setting up an entire new set of pricing rules and regulations as well as institutions.

Price reform will to some extent cause commodity price increases. If commodity price increase occur in the course of the reform in the nature of a currency inflation, they may combine with the increases of the reform and lead to commodity price increases of huge dimensions; and as a consequence also to extremely heavy pressure and disturbances throughout the entire economy. It is therefore necessary, in the course of deepening the price reform, to pay attention to the control of the economic environment and to rectifying the economic order.

Reform Investment Mechanism

40060164 Shanghai SHIJIE JINGJI DAOBAO in Chinese 28 Nov 88 p 10

[Article by Zheng Chunzhi 6774 4783 2535, general manager of the Zhengde Enterprise Group Corporation, Harbin: "Investment Mechanism of the Reform"]

[Text] Reduction of the scope of capital investments is extremely important, because in an environment where social demand always exceeds supply, it is impossible for a commodity economy to develop and operate effectively. Of course, speaking from the viewpoint of the construction industry, it is hoped that the investment market climate is one that shows an abundance of basic funds and a large scope for investments. However, this scope for investment must conform to national strength. If investment demand is far in excess of what society can actually supply, it is bound to lead to currency inflation and rising costs of construction materials. This would not only disrupt the economic order of the whole nation, but also, in the end, adversely affect developments in the enterprises themselves.

Reducing the scope of capital investments ought not to be done, in my opinion, according to the old way of arbitrary uniformity, but rather by combining control of total investment demand with a readjustment of the investment structure. The inflationary investment demand that is now occurring in China is mainly coming from the extra-budgetary sector; it is due to the lack of self-imposed restraint and impulsive expansions by enterprises and government offices at all levels. Although simple execution of macroeconomic retrenchment may possibly have the effect of getting quick results, it would not provide a radical solution; measures must be taken as far as the investment mechanism of the reform is concerned. On the one hand, property relations within the enterprises must be clarified and delineated, and a mechanism of self-restraint established and formed. On the other hand, on the macroeconomic level, the volume of currency issued must be controlled, loan interest rates must be raised, and external restraint on

the investment of enterprises must be tightened up. At the same time, the government must determine an effective industrial policy and give preference in its investments to industries that are leading factors in the national economic development and key engineering projects. They are to be given preferential support. For enterprises that are not leading factors in the national economy, especially cases of out-of-plan construction of a non-productive nature, limits should be imposed, and the investment structure should be perfected.

FOREIGN TRADE, INVESTMENT

Soviet-Heilongjiang Border Trade Enters 'New Stage'

40060203c Beijing GUOJI SHANGBAO in Chinese 22 Dec 88 p 1

[Report by correspondents Hu Haiqing 5170 3189 3237 and Zhao Yingqi 6392 5391 3823: "Vice Governor Du Xianzhong States Heilongjiang-Soviet Border Trade Has Entered a New Stage"]

[Text] "Since the beginning of this year, the border trade between our province and the Soviet Union has made a breakthrough in its progress and entered a whole new stage that combines economics and technology with trade." This remark was made by Du Xianzhong [2629 7359 1813], vice governor of the Heilongjiang Provincial People's Government, at a border trade work conference held in this province.

Vice Governor Du said that by the end of November, Heilongjiang Province had signed 550 million francs of contracts on Soviet border trade; the two sides had exchanged 150 francs of goods, a 3.7-fold increase over the corresponding period of last year.

Du Xianzhong mentioned several characteristics of Soviet border trade:

1. The mix of export goods has changed drastically. The variety of export goods increased from 50-plus in 1987 to 3,000-plus in 1988; the number of goods whose export value was over 1 million francs increased from 13 last year to 30-strong this year; and some machinery, electronic products, and instruments have also entered the Soviet market.

2. The field of cooperation has been broadened continuously. During the period between the time, when Sui-fenhe City set the first precedent by sending laborers to the Soviet Union to grow vegetables, and the end of November, Heilongjiang Province signed 157 contracts and agreements with the Soviet side on economic and technological cooperation. Of which, 15 have been and are being carried out. These projects include joint ventures, construction contracts, and labor exports. As many as 1,200 laborers have gone to the Soviet Union.

3. The unprecedentedly flourishing border trade has attracted the attention of economic and business circles at home. Since April, provinces, municipalities, and autonomous regions throughout China have sent many people to Heilongjiang Province to conduct on-the-spot investigation on Soviet border trade and cooperation. According to incomplete statistics, Heilongjiang has received over 380 groups and 2,000 individuals. Many provinces and municipalities have brought along many cooperation projects with good development prospects. The method of cooperation is also changing from supplying goods to acting as agents.

Shen Jueren on China's Stand at 'Uruguay Round' Meeting

40060203a Beijing GUOJI SHANGBAO
in Chinese 13 Dec 88 p 1

[Report: "Hope To Establish A More Open Multilateral Trade System—Shen Jueren Stated the Chinese Government's Stand at the Ministerial Meeting on the Mid-Term Review of the 'Uruguay Round'"]

[Text] Shen Jueren [3088 6030 0086], head of the Chinese delegation at the ministerial meeting on the mid-term review of the Uruguay round of multilateral trade negotiations of the General Agreement on Trade and Tariff [GATT] and vice minister of foreign economic relations and trade, delivered a speech at the meeting on 7 December, stating the Chinese government's stand at this meeting and hoped to establish a more open multilateral trade system. His speech is summarized as follows:

Mr Chairman, since the Punta Del Este Meeting, many positive factors have existed in the world economy, but its development is still unstable and uneven. Most developing countries, in particular, still face a grim economic situation and mounting debts. International trade has increased some, but the pressure of trade protectionism has not been reduced. Trade frictions have occurred one after another. Trade barriers aimed at developing countries, especially the exports of their competitive products, have slightly increased. The promise of maintaining the status quo and gradual reduction in the "Punta Del Este Declaration" has not been carried out earnestly. Trade protectionism still is a major threat to the development of the world and the improvement of the multilateral trade system. We wholeheartedly wish that the new round of multilateral trade talks can, in accordance with the goal set in the "Punta Del Este Declaration," make contributions to checking and reversing protectionism, safeguarding the basic principles of the GATT, and establishing a more open, active, and lasting multilateral trade system. During the new round of multilateral trade negotiations, practical and effective measures should be taken to provide opportunities for those countries with different levels of development to fully participate in the multilateral trade system to promote the steady growth of the world economy.

It has been 2 years since the launch of the Uruguay round of multilateral talks. Some progress has been made in the negotiations of various topics, but the development has been very uneven. Especially on many topics that are of great interest to developing countries, no substantial achievements have been made. The Uruguay round is faced with arduous tasks of negotiations. This mid-term review is very important and should provide great motive power for negotiations to be carried out in the next 2 years. Textiles and clothing trade is one of the important topics that concern developing countries, but the progress of negotiation in that group is very slow. We hope that developed importing countries actively respond as soon as possible to the proposals of developing countries and begin substantive negotiations on resuming the methods and measures of the GATT system for textiles and clothing trade. The Chinese government agrees to making an agreement on such topics as the functions of the GATT system, the resolution of conflicts, and tropical products. The trade of agricultural products and the clauses of protection are two major problems. Despite extensive discussions, no positive results have been achieved. We think that all participating nations should make an effort and reach, as soon as possible, an agreement that is acceptable to all parties in accordance with the basic principles of the GATT. With regard to service trade, intellectual property rights, and investing measures, the Chinese government is willing to continue to participate in the negotiation as authorized by the "declaration," and hopes to work out through discussions a guiding principle for negotiations in the next stage so as to accelerate the progress of negotiations.

Mr Chairman, as a low-income developing country, China is willing to observe all the basic principles set forth by the "declaration" and vigorously participate in multilateral trade negotiations. In the past 2 years, the Chinese government has made new progress in implementing the general policy of opening to the outside by reforming economic and foreign trade systems in an all-round way. China's import and export trade has increased substantially and thereby made a positive contribution to the growth of international trade. At the present, the Chinese government is adopting measures to clean up the economic environment, rectify economic order, and overcome the inflation problem which cropped up during the switch of economic models. China's current effort to clean up the economic environment is to create better conditions for its reform and policy of opening up. We deeply believe that establishing an open, active, and lasting multilateral trade system is conducive to realizing the goals of the reform of China's economic system and will create a favorable international environment for the development of China's foreign trade. The outcome of the Uruguay round of talks has a vital bearing on China's trade development in the future. The Chinese delegation is willing to cooperate with all participants at the meeting and contribute to the promotion of trade liberalization and the success of this meeting.

Country Eyes Sudanese Market for Electronics Exports

40060203d Beijing GUOJI SHANGBAO in Chinese
1 Dec 88 p 3

[Article by Sun Xiaoke 1327 1420 4430: "Sudan Has a Great Demand for Machinery and Electronic Products; Chinese Machinery and Electronic Products Are Good Quality and Very Popular"]

[Text] Sudan exports \$500 million to \$600 million of goods a year and imports mainly industrial products. Its total annual imports range between \$1 billion to \$1.2 billion and its annual trade deficits range between \$6 million to \$7 million, which is made up with foreign loans and foreign aids.

Sino-Sudanese trade is fairly developed, but its total trade volume accounts for only about 2 to 5 percent of Sudanese foreign trade. Since 1985, Sino-Sudanese trade has declined substantially, and the total volume of trade between the two countries has dropped from the peak \$130 million in 1979 to less than \$16 million in 1987. China exported \$15 million of goods to Sudan and imported only \$870,000 of goods in 1987.

According to the market situation of Sudan, while emphasizing the exports of light industrial products, China should strengthen the exports of machinery and electronic equipment to Sudan.

Khartoum, the capital of Sudan, and other provinces all suffer from a serious shortage of electricity and water. Above average-income families all have a small or medium-sized generator for lighting and air conditioning. They also need to install a small water pump for drinking water. Large stores also have generators for use during power failure. Because of this, there is a great demand in Sudan for diesel oil, water pumps, and generators. Imports of these products plus farm machinery are worth over \$200 million every year. Judged over the long run, China has great potential for exploring the Sudanese market.

The manager of a company dealing just in machinery and electronic products made in China told the reporter that the advantages of Chinese machinery and electronic products are good quality and reasonable prices which suit the needs of the Sudan market. However, he hoped that China could help improve after-sale services, including maintenance service and parts supply.

Light industrial products made in China have a stable market in Sudan. Chinese plastic shoe pieces, gunny-sacks, and plastic woven bags are very popular in Sudan.

Henan Official on Province's Foreign Trade in 1989

40060203b Beijing GUOJI SHANGBAO in Chinese
22 Dec 88 p 1

[Report by reporter Feng Zhuowu 7458 0587 0063: "Vice Governor Qin Kecai Talks About Henan's Foreign Trade in 1989"]

[Text] Qin Kecai [4440 4430 2088], standing committee member of the Henan Provincial CPC Committee and vice governor of Henan Province, said on 8 December at the Henan Provincial Meeting on foreign economic relations and trade that increasing exports and foreign exchange earnings should not be considered as the business only of the foreign trade department. All trades and professions and all departments, including foreign trade, industry, agriculture, and technology, must vigorously coordinate and strengthen their cooperation with each other.

In order to increase exports and foreign exchange earnings and fulfill Henan's export and other economic and trade tasks under the prerequisite of ensuring a better economic performance, Qin Kecai set forth some clear demands on Henan's economic and trade work in 1989 after analyzing the current situation and contradictions of economic and trade work. First, continue to increase exports and foreign exchange earnings under the prerequisite of increasing economic returns and improving the quality of export goods. Export-oriented production enterprises should have the concept of quality and a quality-control system. Second, earnestly implement the clean-up and rectification policy and focus on "briefcase" companies and illegal operations. Rectification should concentrate on those who are not qualified, do not have the ability to import or export goods, do not have enough operating funds, or engage in illegal buying and selling in violation of state policies. During the rectification, we should pay attention to protecting productive forces, or protecting exports and foreign exchange earnings as far as foreign trade is concerned. Third, vigorously develop the production of export goods, improve the mix of export goods, and increase the staying power of exports. We especially need to increase the export of machinery and electronic products with a higher added value and strive to develop a number of popular brands of high-tech products. Henan is one of China's major cotton production areas and its textile industry is fairly developed. It should upgrade yarn, grey cloth, and printed and dyed products by developing an export textile production system based on clothing to enable textile exports to reach a still higher level. We should make great efforts to develop labor-intensive products and industries, such as growing mulberry and silkworms, silk reeling, printing and dyeing, silk clothes, silk rugs, and carpets. We should vigorously develop the export of expensive, high-quality, and nicely packaged processed foods. Fourth, further develop integrated bodies of trade, industry, and agriculture that share risks and profits to bring into play the advantage of the whole and

increase exports and foreign exchange earnings. Fifth, strengthen the work to absorb foreign investment. Establishing more joint ventures and more foreign-funded and cooperative enterprises can attract more foreign capital and technology and open up more roads to international markets.

**Centralized System of Tiered Management
Proposed for Country's Foreign Debt**
40060177 Beijing CAIMAO JINGJI [FINANCE AND
TRADE ECONOMICS] in Chinese
No 10, 11 Oct 88 pp 35-38

[Article by Huang Zhongyou 7806 0022 0645, Research Institute of the Ministry of Finance: "Tentative Ideas on Establishing a System of Centralized Tiered Management for Foreign Loans Owed by China"]

[Text] Since first taking on foreign loans in 1982, the scope of China's foreign loans has expanded year after year. By the end of 1987, the total amount of foreign loans exceeded \$30 billion. Moreover, in the wake of implementing the policy of opening to the outside world, and due to requirements of domestic economic development and the speedy buildup of an export-oriented economy, China is more and more in need of actively borrowing from abroad and of using foreign capital, to make up for the shortage of development funds within China. This is a question of strategy, and it makes it, therefore, urgently necessary to study how to improve the management of foreign loans taken on by China.

I. Some Fundamental Ideas on a Centralized Tiered System of Managing China's Foreign Debt

The objective of establishing a centralized tiered system of foreign loan management is to strengthen China's macroeconomic management and regulation of foreign borrowing, to coordinate organically the activities of borrowing, using, and repaying China's foreign loans, and restrain any inordinately rapid increase in foreign borrowing. An organic integration of foreign loans with domestic economic development, the fullest use of limited foreign loan capital to promote the readjustment and development of the economic structure, is promoting the effective development of an export-oriented economy along the coast. Fundamental ideas relevant to this development are: The authority for managing China's foreign loans shall rest centrally with the State Council. The State Council shall delegate its authority to a foreign loan central planning commission organized under the State Council. The Ministry of Finance shall correspondingly organize a state loan administration. The Central Planning Commission shall be divided into two administrative levels: namely a decision-making level and an executive level. Correspondingly, a decision-making organization and an executive organization shall be set up. (1) The decision-making level shall be composed of representatives from the Ministry of Finance, the Planning Commission, the Foreign

Exchange Control Bureau, the Central Bank, the Ministry of Foreign Economic Relations and Trade, a deputy secretary general of the State Council, and economists. The representative of the Ministry of Finance shall have veto power. (2) The executive level shall be composed of representatives from the Ministry of Finance, the Bank of China, the China International Trust and Investment Corporation, and in addition shall seek participation of departments in charge of foreign loans (foreign investments) in local governments and of members of nongovernment financial institutions. The State Loan Administration of the Ministry of Finance shall be in overall charge of the said organization, in charge of drawing up its regulations, of compiling foreign loan statistics, and of coordinating and performing all routine work.

At least the following positive results can be achieved by setting up a centralized tiered system of managing foreign loans: First, it will be beneficial for the prompt understanding and complete familiarity with all conditions and the developmental orientation of China's foreign loans, which will facilitate correct macroeconomic decisions in the management of foreign loans. Second, it will maintain the principle of a unified centralized control of foreign borrowing, which is beneficial for lowering the costs of China's foreign borrowing, for improving loan terms, and for enhancing China's reputation as a recipient of loans. It will be beneficial for broadening the scope of China's efforts to raise capital abroad and will widen the sources of new capital, as it will also establish long-term solid partnership relations with the investing capitalists abroad. Third, it strengthens macroeconomic management and control of all foreign loans, and can effectively coordinate the three links of "borrowing, using and repaying" of foreign loans, and can also effectively integrate the borrowing, using, and repaying of foreign loans with the requirements and capabilities of the domestic economic development, and raise the economic and social returns from the use of foreign loan capital. Fourth, it can bring about a change in the present Chinese system of "multiheadedly" facing the outside world in matters of borrowing and a "multiheaded" management, which actually amounts to a state of passivity of ineffectual management. Consequently, it would ensure in structural and organizational respects, a necessary centralization of China's foreign loan management, guard against and avoid losing control over foreign borrowing, and avoid being reduced to the status of a debtor country. Fifth, the centralized tiered system of management can, on the one hand, avoid that excessive centralization of foreign loan management have an adverse effect on the enthusiasm of the various departments, and, on the other hand, can avoid that foreign loan management becomes excessively dispersed and create chaos in management, which would lead to the loss of control over foreign loan management; it is, therefore, a system that is very well suited to conditions in China.

II. Substance of the Centralized Tiered System of Foreign Loan Management

Drawing on the experiences of other countries, and linking them to the national conditions of China, makes us believe that an effective foreign loan management setup must entail the following five decisive efforts, which have differentiating as well as closely binding relations.

A. Determining the macroeconomic policy objectives of the national economy, determining investment strategy, and treating foreign loan management as an extremely important matter. A country's economic growth and its foreign exchange balance are closely linked up with the increase in its foreign loans. Economic growth and foreign loan accumulation are just correlated functions. But if economic growth reaches a country's limit of labor productivity, the extent of the increase in its indebtedness will then by far exceed its economic growth rate. It follows that if there is a blind pursuit of rapid economic growth, control will frequently be lost over the growth of foreign indebtedness. Furthermore, because foreign loans have the "delayed aftereffect" of repayment of capital and payment of interests, developing countries have often and easily been trapped and ended up in the throes of debt crises. Some countries of South America and Eastern Europe are proof of this.

Besides, if the investment strategy neglects the fact that loans from abroad must be matched by RMB capital and material resources, it will either lead to minimal or zero economic returns from the use of the foreign loans, or to a devastating blow in the areas of China's currency supply and market prices for commodities, causing the inflation rate to go up and adversely affecting all operations of the national economy.

B. On how to have the ultimately fixed policy determined by the eclectic investment policies of the three levels, namely of enterprises, local governments, and the central government. If badly coordinated, the criteria for domestic eclectic investments may conflict with the eclectic investment criteria in the management of foreign loans. When foreign loans are later actually distributed for use, it is therefore necessary to make a distinction between one part that is to be directly used on export items, one part to be directly used on items of import substitution, and one part to still complement domestic infrastructure projects.

C. On having the policy governing the scope of borrowing basically determined by the control levels set by the decision-making stratum. Whenever a country determines the overall scope of its foreign borrowing at different times, the measurements in international usage are mainly of three kinds: (1) The balance of foreign indebtedness must be less than 20 percent of GNP; (2) Repayment of capital and payment of interest during a certain year must be 20 to 25 percent of that year's income from recurrent items; (3) The total foreign indebtedness compared to the

total amount of exports of the year must be less than or equal to that in (1). However, it would be highly unwise to rigidly apply the above norms in managing, adjusting, and controlling China's total foreign indebtedness. (Some countries in South America, in Eastern Europe, and the Philippines suffered failure in their attempts to control the scope of their foreign indebtedness according to these norms and ended up in the throes of debt crises.) The critical point is to be able to fairly accurately forecast the positive effect (how much the economic benefit will be) of present-day borrowing for the future economy, particularly for the international balance of payments, while at the same time getting the growth rate of foreign indebtedness under control and keeping it smaller than the growth rate of the national income and financial revenue.

D. Establishing an information system that can provide latest and complete foreign loan statistics is a key requirement of foreign loan management. The functions of this system are, on the one hand, to undertake the collection and statistical analysis of China's indebtedness, of whatever form, to foreign countries, and, on the other hand, the employment of internationally customary accounting methods to keep account, and in orderly form, of all data appertaining to China's foreign debts, also to record pledges of foreign loans which were not yet actually paid, a plan of all repayments of foreign debts, showing dates due, as well as the anticipated interest payments due, to be compiled into ten-day reports of foreign loan statistics.

E. Analysis of the technical aspects of foreign loans, which comprises selection of rational tools, currency, time limits, interest rates, structuring, right opportunity for borrowing, and a market strategy (including sifting out and selecting top-ranking banks, starting rescheduling, etc.). There are many techniques used in the international money market, and as far as China is concerned, there is a large range from which selections can be made. The government organ in charge of foreign loans is responsible for giving borrowing units (windows for borrowing abroad) consultations and guidance on technical factors, also to confirm that raising funds for the particular project in question is in line with the overall economic requirements. The "windows for borrowing from abroad" must also speedily obtain information on relevant world interest rate levels, rates of exchange, commodity prices, and on other regularly used indices needed by the foreign loan management organs, thus also itself assess the investment projects and the choice of method for raising capital funds. Moreover, the foreign loan management department must provide an accounting method and guidance with regard to techniques in the money market to reduce or eliminate certain risks involved in taking on foreign loans, while the enterprises must observe the principles uniformly determined as to the types of currency, fund raising, and projects involved in such loans.

III. Measures (Strategy) To Implement a Centralized Tiered Management of Foreign Loans

According to the ideas of the centralized tiered system of management for foreign loans, China ought to employ the following measures to improve management of its foreign loans:

A. The decision-making level should institute a qualitative and quantitative management in the administration of foreign loans, and furthermore employ direct and indirect forms of management.

1. Qualitative management. This mainly comprises: (a) Formulation of a foreign loan policy and coordinating increases in foreign loans with economic growth. (b) Formulating and reexamining plans for borrowing from abroad, and supervising their execution. (c) Guiding the direction of investments from foreign loans. Foreign loans should preferably be allocated to such projects that will quickly generate sources of foreign exchange for the repayment of capital and payment of interest of the foreign loan in question, also projects for which adequate domestic matching capital and an infrastructure for the intended material investments exist. (d) Supervision of the implementation of a state foreign exchange reserve fund policy, prescribing the specific amounts of foreign exchange holdings for organs that may engage in foreign exchange transactions, reducing their short-term borrowing from the Central Bank, and using techniques of the money market to improve repayment capability. (e) According to national conditions, coordinating borrowing, use, and repayment of foreign loans, and, in the financial field, improving supervisory controls, to ensure orderly borrowing and repayment. (f) Periodically submit to the State Council basic economic and financial data of a comparative and analytical nature on foreign loans, to enable an assessment of risks and macroeconomic decision-making. (g) Adopting measures that combine direct and indirect management.

Direct management should be carried out in the case of large projects of nationwide significance and in case of centrally arranged loans or repayments of the government. The policy-making level may, for the purpose of systematic overall management, set up departments in charge of budgeting, examination and approval, monitoring, consultation, statistics, and allocation of foreign loans. To speed up the circulation of borrowed foreign capital, a system of foreign loan transfers shall be provided for, and a fund, furthermore, set up for loan transfer business, to serve as one of the state's capital sources for a sinking fund. It means that the state's centrally borrowed foreign capital must, with an appropriate change of the original terms, be transferred to the user unit. For instance, as regards the time limit, a 20-year loan must not be transferred to an enterprise with the same time limit, but should be recovered as quickly as possible, depending on the actual conditions of the enterprise and the periods of depreciation. If it would be turned over once after 10 years, this loan would

become two loans. This would greatly increase the use rate of foreign loans. As to interest rates, loan transfers to domestic enterprises must not be at the interest rates at the time of contracting for the loan, but have added to it an international capital interest rate change parameter (such as LIBOR), to effect a certain pressure on the enterprise. Income derived from these interest disparities, and also due to temporal disparities, shall be partly paid as reward to the fund-using unit and partly into a loan transfer fund.

Indirect management and indirect control should be exercised in case of foreign loans taken on by local governments and nongovernment financial institutions in connection with the borrowing of foreign funds by enterprises (mostly self-borrowing and self-repaying). When foreign capital is needed, local governments and nongovernment institutions may be encouraged to try, in cooperation with enterprises, to raise capital abroad, the government providing guarantee for the loan and guarantee for foreign exchange rates. To retrench foreign borrowing, the government may resort to: (1) Imposing a withholding tax on foreign loan interests. Since the investor of a foreign loan will have his returns from loan interests reduced, it will therefore restrain the extending of foreign loans (this method was employed by Indonesia, Malaysia, and Thailand). (2) Prescribing that the borrower shall deposit one part of the foreign loan, or even a large part of it, at low or even zero interest with the Central Bank (this method was used by Brazil and Chile). (3) Imposing an upper limit on loans taken on by local governments and nongovernment institutions, and, furthermore, prescribing that no short-term foreign loans may be taken on.

2. Quantitative management. This mainly consists of employing a method of regression analysis, and setting up an econometric regression analysis model, to measure China's foreign loans. The purpose of it is to make a comparison between the amount of foreign loans actually required by China's economic development and the theoretical value figured out on the econometric regression model, in order to provide comprehensive information for policy decisions. Presently, internationally recognized relevant parameters affecting foreign loan regression models are mainly: (1) the economic growth rate of a country; (2) per capita GNP; (3) the state of its international balance of payments; (4) its trade balance; (5) international reserves; (6) recurring income; (7) foreign exchange reserves; (8) import-export flexibility; (9) relative and absolute export capacity; (10) inflation rate; (11) the government's financial budget; (12) extent of currency depreciation; (13) interest rate fluctuations on the international money market; (14) trend of exchange rate fluctuation; (15) prospects of the world's economic development.

Based on the degree to which the above variables affect foreign loans, we should determine the dimensions of the parameter, and, furthermore, establish a regression model table and figure out results, to effect regressive

tests. We should establish a system of basic norms of risk assessment and management of foreign loans. Its main purpose and use would be: (1) to analyze historical evolution (draw lessons from the past); (2) to work out the domestic plan, establish the objectives, and compare proposals; (3) to make comparisons with other countries (draw lessons from their experiences); (4) to set up an early warning system for risk management. As a consequence, we would be able to readjust the composition of China's foreign loan structure, and, furthermore, restrain any excessive growth of foreign indebtedness.

Although there are internationally many norms to measure the proper amount of for foreign loans, we must never apply them indiscriminately in full, but must select specific ones according to the national condition of China. When Poland, Hungary, the Philippines, and some countries of South America contracted large amounts of foreign loans, they did give consideration to norms of indebtedness in general use internationally, but in the end were still caught up in the throes of debt crises. We have therefore evolved the following nine basic norms and have classified them according to their use:

First category: basic norms to measure the relative scope of foreign loans: (1) foreign loans not to exceed 20 percent of that year's GNP; (2) total amount of foreign loans not to exceed 100 percent of income from recurrent items; (3) foreign loans not to exceed 10 percent of total domestic capital requirements.

Second category: norms to measure debt burden and growth of indebtedness: (4) the relation of the annual growth rate of foreign loans to the growth rate of the GNP or the national income must be smaller than stated under (1); (5) repayments on the foreign loans must amount to less than 25 percent of income from recurrent items.

Third category: basic norms to measure capability to repay: (6) the amount of capital to be repaid or interests to be paid on foreign loans in a certain year must not exceed 25 percent of that year's receipts of foreign exchange from exports; (7) the relation between the state's foreign exchange reserve and indebtedness must not be less than stated under (1); (8) the debt service rate must not be more than 10 percent of foreign exchange income; (9) interest due on foreign loans shall amount to between 1.8 to 2 percent of the national income.

2. Management of Foreign Loans by the Executive Level (executive organs)

Improvement effected by the executive level in foreign loan management will mainly become evident at the three links of borrowing, using, and repaying of foreign debts. The following measures must be employed:

1. It must be clearly and definitely determined that all activities to raise capital abroad are to be undertaken by the Foreign Loan Administration (Section) of the Ministry of Finance, the Bank of China, and the China International Trust and Investment Corporation as principal parties. The capital that they will raise shall be passed on through a loan transfer transaction for use at construction projects and in enterprises at various places. In this way it will be possible to reduce the costs of raising capital and to increase economic returns from the capital thus raised. Of course, the coastal regions, especially the local governments and large joint venture enterprises shall also be permitted to issue bonds abroad in connection with their projects, so as to increase the appeal to investors and expand the scope of raising capital.

2. Establishing and maintaining an excellent market reputation is a crucial point in market competition. China hopes its reputation will be equal to that of Norway and Sweden, countries which at any time can raise large amounts of capital at low interest in the international money market. A reputation of this kind must be earned in hard work. China must have strategic foresight in matters of foreign loans. The important thing for China trying to raise capital in the new market is its image. It is therefore necessary to increase its propaganda in the public media abroad. China has the capability of transacting and refunding loans. It is, furthermore, normally participating in international money market activities, and is maintaining normal contacts and dialogue with investors. It is suggested that the Ministry of Finance establish permanent offices at the most important money markets of the world. We must open up the market and must not negotiate back and forth with the leading banks on the basis of an interest rate of 0.01 percent. Still, these banks possess abundant capital strength and, furthermore, offer the opportunity to establish long-term cooperative and partnership relations. It would be well worth to yield a bit on the interest rate. Even if the terms for the first issue may be unfavorable, as long as a bond issue can easily be placed in a second rank market and the market rate is acceptable, it will lay a sound foundation for raising long-term capital in the future.

3. Establishing a rational foreign loan structure. The soundness of its debt structure affects a country's ability to gain the anticipated economic and social benefits from the use of foreign capital, and determines whether difficulties will arise when loans will have to be repaid. Therefore:

1) Improving the sources of capital supply. There are two kinds of sources for China's foreign loans: one kind are loans from foreign governments and financial institutions. Their loans are long-term, for large amounts, at low interest rates (even at no interest), and they have comfortable time limits; pressure from these indebtednesses is rather light. The other kind are commercial loans (including bond issues) of the international money

market, i.e. commercial sources. Their terms are rather harsh, they are difficult to manage, and easily become a heavy pressure of indebtedness. China should, therefore, make full use of government loans and low interest loans provided by the International Monetary Fund, the World Bank, the Asian Development Bank, and other such international monetary organizations, and appropriately restrict the proportion of commercial loans.

2) Improving the temporal structure of debt repayments, staggering payment and repayment times for capital and interests on foreign loans, and guarding against concentration of repayments at certain peak times. Measures should be taken to control short-term debts, to have them not exceed 60 percent of the state's foreign indebtedness. At the same time, repayment times must conform with investment payback periods to avoid that excessively short loan period and excessively long investment payback periods cause difficulties in repayments.

3) Establishing a rational loan interest and currency structure. The strategy to adopt with regard to interest rates is to combine fixed interest rates with floating interest rates. As to the currency of loans, the strategy should be to adopt a mixed form of currency structure with an essentially stable currency as dominant currency. At the same time, we should adopt the traditional debt accommodation measures, such as interest and currency adjustment periods, redetermining interest times, transfer and retransfer of loans, new trade credit facilities, joint capital accommodation, transfer of indebtedness, etc., which are in current practice internationally, and we should also learn to use the most modern international debt accommodation strategies, such as the expenses strategy, conversion into negotiable securities, giving priority to certain indebtednesses, capitalization of interests, buying back of debts, and other such new methods of capital accommodation.

4) Selection of the best form for raising capital and the most opportune time for issues. International specialists in loan matters, such as Japan, Switzerland, and West Germany, have pointed out that China should employ the method of having a bank syndicate undertake the purchase of its bonds, and also use both public and private forms of inviting subscriptions. This would make it possible: (1) to actually receive the full amount of the loan capital; (2) to have all market risks borne by the bank syndicate, and (3) to gain much bond market information, which would be helpful in raising confidence in China's trustworthiness as a debtor. At the same time, it would also provide the right opportunity to enter the market and issue bonds, when interest rates drop in the international money market and exchange rates rise.

5) Effective preparation for the rating of bonds, also maintaining regular contacts and dialogue with the world's most important bond rating institutions. We should on our own initiative provide data relevant to rating and strive to obtain a very good rating.

6) Guiding and adjusting the structure of investment allocations. Main emphasis in directing foreign loans must be placed on relevant domestic infrastructure projects and the development of foreign-trade-oriented projects that will earn foreign exchange through exports.

7) Opening up many channels for the repayment of debts. First, formulate various policies for granting preferential treatment, accelerate the development of the foreign-trade-oriented economy, expand export trade, and raise repayment capacity. These are the fundamental ways facilitating the repayment of foreign loans. Second, establish a foreign loan sinking fund, as an effective method in matters of repaying foreign loans. Third, take on new loans to repay old loans; this is merely a supplementary method and an expedient measure, which must be used with great care.

Beijing Decentralizes Authority for Joint Venture Contracts, Rules

40060124a Beijing GUOJI SHANGBAO in Chinese
8 Nov 88 p 1

[Article by staff reporter Liu Lei 0491 7191: "Beijing Delegates the Authority To Examine and Approve Foreign-Funded Enterprise Contracts and Articles of Association to Lower Levels"]

[Text] To encourage the use of more foreign funds, simplify examination and approval procedures, and increase work efficiency, the Beijing Municipal People's Government decided to delegate to district and county people's governments the authority to examine and approve contracts and articles of association for small and medium-sized foreign-funded enterprises, beginning 1 November this year. This was announced by Comrade Zhang Ming [1728 2494], chairman of the Beijing Municipal Foreign Economic Relations and Trade Commission, at a meeting held recently on the decision.

Zhang Ming said that good progress has been made in the use of foreign funds this year. From January through October, Beijing approved 105 new foreign investment projects, with a total agreed upon investment of more than \$350 million, of which district and county projects account for more than 70 percent. Foreign funds are being used at a much faster rate with fairly good results.

The decision to delegate more authority to the lower levels for examining and approving foreign-funded enterprise contracts and articles of association is an important measure of the municipal government to attract more foreign capital and reform the foreign investment system. It means that for small and medium-sized Chinese-foreign joint ventures and cooperative business operations, the entire process from the very beginning of a project proposal to feasibility studies and reports, the contract and articles of association, and amendments and additional agreements will be examined and approved by district and county governments. After its contract and articles of association have been

approved by the district or county government, the company can apply to the municipal foreign economic relations and trade commission for the issuance of a certificate of approval. If all relevant documents and procedures are complete, a certificate will be issued by the commission within a week. To insure the success of this change, Beijing took strict measures beforehand. In September, the commission engaged the Beijing Foreign Investment Service Center to run a "foreign investment contract and articles of association examination training class" to train the needed personnel. District and county personnel in the field of foreign economic relations must attend the training class, pass the examinations, and obtain "certificates for examining foreign investment contracts" issued by the commission before actually examining investment projects.

Foreign-Funded Enterprises Bolster Fuzhou's Economy

40060124d Beijing GUOJI SHANGBAO in Chinese
26 Nov 88 p 1

[Article by staff reporters Chen Zhaohao 7115 0340 6275 and Wang Bowei 3769 0130 0251: "The Three Kinds of Partially or Wholly Foreign-Owned Enterprises Have Become an Important Pillar of Fuzhou's Economy"]

[Text] In the first 9 months of this year, 87 partially or wholly foreign-funded enterprises opened for business or began production in Fuzhou City, averaging one foreign-funded new enterprise every 3 days. So far, Fuzhou has approved 352 contracts of foreign-funded enterprises, of which 227, with \$120 million actually invested, have been completed and put into operation. According to a survey, the foreign-funded enterprises in Fuzhou have an annual profit rate of 29 percent.

Fuzhou has been using rapidly increasing amounts of foreign funds in the past 2 years. Between October 1986 and the end of 1987, the city approved 75 foreign investment contracts, totaling \$36.5 million. In the first 9 months of 1988, the number of contracts approved rose to 111, with a total investment of \$75 million. The trend is continuing, and characterized by a simultaneous increase of economic returns on investment.

The quality services offered in Fuzhou for the development of an export-oriented economy have a direct impact on attracting foreign investment. At the beginning of this year, a "foreign-funded-enterprise survey and service team" with a vice mayor as its leader was organized. The team called on the 180 partially and wholly foreign-owned enterprises in the city to talk with the Chinese and foreign managers. Of the 224 problems raised by them, 87 percent were solved within a month. To provide quality services, the municipal government has carefully examined and revised 25 existing regulations concerning foreigners, and, on this basis, the municipal government and related departments have introduced 86 corresponding policies and provisions in

seven fields for improving the investment climate in the light of actual local conditions. The implementation of these policies and provisions are being constantly monitored. Fuzhou has also strengthened macroeconomic regulation and control on the use of foreign funds. Of the 111 contracts of foreign-funded enterprises approved this year, 97 percent are production projects, and 90 percent of these production projects are industrial projects.

The series of actions taken by Fuzhou for improving the investment climate have also helped increase the economic returns for the foreign-funded enterprises already in operation, bringing considerable profits for the foreign investors and injecting new vitality into Fuzhou's economy. In the first 9 months of this year, the foreign-funded enterprises in Fuzhou registered a total output value of 1,195,000,000 yuan, an increase of 516 million yuan over the same period last year and accounting for 40.3 percent of the city's total increase in output value. And the foreign exchange earned by these enterprises through export accounted for 70 percent of the city's total exports in the same period. A survey of 100 foreign-funded enterprises in Fuzhou showed that they have an average annual profit rate of 29 percent.

AGRICULTURE

Ministry Officials Discuss Successes, Problems in Grain Price Reform

40060130 Beijing NONGYE JINGJI WENTI
[PROBLEMS OF AGRICULTURAL ECONOMY] in
Chinese No 10, 23 Oct 88 pp 24-27

[Article by Yang Qirong 2799 0796 2837, Tang Renjian 0781 0088 0256, and Huang Shouhong 7806 1343 1347, of the Ministry of Agriculture, Policy and Laws and Regulations Department: "Price Reform: Areas of Breakthrough and Areas Requiring Critical Reexamination"]

[Text] I. Regional Breakthroughs

Since April 1988, Shanxi, Guangdong, Fujian, Xinxiang of Henan Province, and Yulin of Guangxi Autonomous Region have achieved full-scale breakthroughs in highly sensitive and risky aspects of grain price reform using different approaches and attacking different problem areas and thus have brought a breath of fresh air to the nation, which has been engulfed in an oppressive mood of disillusionment with reform.

1. **Breakthroughs at the sales link.** China has rationed grain at low prices for more than 30 years, and the resulting waste of and the mounting price subsidies for grain are posing increasingly serious threats to central and local finances and to the balance in grain supply and demand. The recent reforms conducted in Shanxi, Guangdong, and other places, all of which regions possess different economic backgrounds, have finally succeeded in striking a blow against these problems. Shanxi

began its reform by curtailing sales of parity-priced rice. Other than the guaranteed basic ration of 14 kg or less per person, the province has eliminated price controls on all industrial grain; grain used in brewing, for pastry-making, or for animal feed; and other subsidized grain and now supplies these products at negotiated prices. This enabled the province to reduce sales of parity-priced grain by 645 million kg, or nearly one-third of the amount previously sold. Guangdong and Yulin in Guangxi Province, on the other hand, have resorted primarily to increasing grain sales prices. Guangdong has ordered that parity-priced third grade rice be sold at 30 yuan per 50 kg, up from 14.2 yuan, a hike of 111 percent, while Yulin has raised its price even more, from 13.9 to 40 yuan, 188 percent. On 1 June, Fujian unveiled a reform program that is modeled on Guangdong's.

2. Breakthroughs in the link of grain trade operations. State grain trading is one of China's largest commercial operations but, due to the prolonged inversion of procurement and sales prices, has not been able to function autonomously and has required subsidization by the government, which problems have prevented grain enterprises from improving their management and have increased the state's financial burden. For example, not counting regular subsidies for price surcharges, price hikes, and the operational costs of grain allocation, all of which Shanxi must bear, excess storage subsidies alone increase the province's financial burden by 2,944,000 yuan (the figure is from 1987). In addition, grain departments have always had to perform two functions—adjusting market supply and managing trade of grain—which, experience has shown are contradictory. During the recent reforms, Shanxi contracted financial responsibility out to each level, and Guangdong and Yulin, Guangxi reordered procurement and sales prices, thus paving the way for and putting pressure on enterprises to improve their management. Shanxi has also use the profit taxes remitted by grain departments to amass reserves of Type C [bing zi 0014 1316] and Type D [ding zi 0002 1316] grain to be used to adjust market supply of grain and thus has separated this latter work from regular trading operations.

3. Changes in the forms of subsidies employed. The recent reforms have brought disguised subsidies out into the open. After decontrolling industrial grain, Shanxi provided monthly subsidies to employees to cover the difference between the old parity prices and the new negotiated prices, setting the subsidy standard during the second quarter of this year at 0.40-0.46 yuan per kg. Guangdong, after raising grain prices, took the average monthly ration of 13.75 kg per employee, multiplied that amount by a dependent-support coefficient of 1.6, and on this basis decided to grant each person a monthly grain price subsidy of 6.95 yuan, or 82.4 yuan a year. Yulin's grain price subsidy is distributed on a per capita basis, with each person receiving 4.33 yuan a month, or 53 yuan a year.

4. Breakthroughs in addressing enterprise financial burdens. Another common feature of the recent reforms is

that they clearly stipulate that employee grain price subsidies are to be fully borne by employer enterprises, which are to absorb the subsidies and may write them off as costs. This is a major breakthrough in addressing the fear that such subsidies will increase enterprise costs. The increased costs for brewing, pastry, beverage, feed and other industries using grain as raw material resulting from decontrol or hikes in grain prices are, in principle, to be absorbed by the units themselves, but whatever amount cannot be absorbed may be passed on in higher product prices.

5. Breakthroughs in reducing governments' financial burden and role. The recent reforms have greatly reduced and even eliminated government subsidies. Governments in Guangdong, Yulin, Guangxi, and other places now only grant subsidies to the employees of administrative and institutional units. Shanxi has ordered that governments pay out no new subsidies and that administrative and institutional units using contracts to purchase industrial grain pay the old subsidy for this grain out of their own budgets. And Xinxiang, Henan has adopted a pay-it-yourself reform, ordering that government units not directly benefiting from the reform not be required to finance it. In terms of the financial relationship between the central government and local governments, the recent reforms have decentralized decision-making and followed the principle of "taking care of your own offspring." Local obligations will not be foisted upon the central government. And local governments will not be required to render financial assistance to centrally controlled projects when central enterprises and institutions run short of funds; instead, central supervising departments will be required to make up the shortfalls.

6. Breakthroughs in procurement prices. The reason contract grain procurement has failed is that it has retained low procurement prices. For example, in Guangdong, triple-linked sales policies mandate price subsidies for the means of production needed for the grain covered in procurement contracts. The province thus has ordered that, beginning with the 1988 grain year, each 50 kg of No 3 Paddy Rice is to be given a 5.84 yuan subsidy, which in effect amounts to a hike in the contract procurement price to 25 yuan, or 30.5 percent. Yulin in Guangxi Province has raised the contract price for each 50 kg of paddy 2.41 yuan and added a grant of 6 yuan (which can be paid in kind) to subsidize the prices of the means of production, thus raising the actual procurement price to 28 yuan, or 42.9 percent. Xinxiang in Henan Province has boosted its contract price to market levels, while raising agricultural taxes and hiking prices for means of production as a trade-off. This year, the contract price the city paid for wheat was 29.50 yuan per 50 kg, an increase of 21.9 percent over the previous rate and equal to the average market price last year.

7. Breakthroughs in the way decisions are made. The recent reforms made useful attempts to decentralize decision-making authority. Decentralized decision-making enables localities to act according to their needs

and abilities, to confront their own problems directly and to improve the timeliness and effectiveness of their reform efforts. Shanxi's reform was launched against a backdrop of successive shortfalls in local grain output, mushrooming sales, severe grain shortage, and a back-breaking financial burden and thus focused on curtailing sales. Although the cutback was great, the burden was spread around, so employee interests were protected, reform proceeded smoothly and the situation remained stable. Conditions in Guangdong are different than in Shanxi, so Guangdong has taken a totally different tack. Ten years of reform and liberalization have vastly increased Guangdong's industrial and agricultural output, government revenues and resident incomes, so the province can cope with price reform much better than before and is now ready to accelerate reform.

II. Divergences Between Theory and Practice

Although the recent reforms have been in place for only a short while and their effects have not yet fully been revealed, preliminary results suggest that they have been successful. Nevertheless, the empirical results obtained from the reforms have turned out markedly different than what had originally, based on theoretical inference, been expected. This matter merits careful consideration. Do the grain problems that have vexed us so long stem from the difficulty of reform, or are they due to the shackles of traditional concepts?

A. Can reform stabilize prices? Some doubts regarding the argument that price stabilization must be our primary concern. Price stability is crucial for the maintenance of socioeconomic order and to the effort to promote economic growth. However, some comrades have concluded from this fact that we must always maintain basic stability in prices, and they have argued that this ought to be a fundamental criterion of reform. This view requires scrutiny.

1. Experience obtained through 10 years of reform has shown that the only realistic and feasible approach to price reform in China is upward, not fluctuating, readjustment. Reform-related price increases and normal inflation (namely, that caused by a loss of control over the economy) are entirely different concepts. If reform-related price increases do not evolve into normal inflation, they will amount in essence merely to currency devaluation or to intersectorial redistribution of income; consumers' interests can be protected by increasing subsidies or wages, and prices that are equally affected by currency value need not be changed. This point is borne out by the fact that consumers tolerate reform-related inflation better than normal inflation.

2. Proponents of the price stabilization argument firmly believe that small readjustments cushion the impact of inflation and thus maintain that this is the best approach for China to take in price reform. Careful analysis, however, demonstrates that, either theoretically or empirically, this argument does not wash. First, in terms

of the overall magnitude of the impact, all approaches, so long as they resolve the problem at hand, will end up adjusting prices by the same amount once they reach their destinations. Second, as for the size of the impact of each approach, there of course will be a difference, but we have no real way of comparing the approaches or of determining which one, one-shot reform or step-by-step reform, will produce the biggest blow and can only resort to theoretical inference here. So long as external forces are the same, a blow is better than a shock. One-shot reform impacts all quarters with a single blow, whereas step-by-step reform produces repeated shocks. Third, as to the relative difficulty of controlling inflation under the two approaches, one-shot reform may set off a broader chain reaction and have a wider impact, but it is precisely because of this that the approach releases greater amounts of energy in a shorter period of time, resolves more problems, and enables general price levels to restabilize faster. Multiple-step reforms, on the other hand, often ignite recurrent price increases, and each small reform tends to negate the previous ones. Thus it is more difficult to control inflation under this approach, which in fact fails to resolve the problem it is supposed to deal with.

3. Does stabilization of grain prices form the basis for stabilizing prices generally? Proponents of the price stabilization thesis argue that the stability of grain prices is key to general price stability and thus that grain prices cannot be hiked rashly and that, even when procurement prices for grain are raised, sales prices should be kept the same for a while so as to soften the blow. Certainly, the key to general price stability lies in stable prices for staple and other major commodities. Like those of steel, iron, coal, and other important commodities, grain prices have a big effect on general price levels, and thus their stability, or lack thereof, is of great importance. However, the issue of necessity cannot not supplant that of feasibility. Steel, iron, and coal are industrial goods whose labor productivity can be improved continuously and whose prices thus can remain relatively stable so long as general price levels do not fluctuate greatly. The situation for grain, however, is different. With the labor productivity of agriculture being much lower than the average throughout the entire economy, rises in the price of labor will invariably increase the price of agricultural goods, especially grain. For 30-odd years, we consistently tried to keep grain prices low and stable. Yet stung by the repeated ups and downs in agriculture, we finally had to grant a big boost to grain prices. From 1950 to 1986, China's grain procurement price rose by 476.5 percent, an increase that was 49.3 percent higher than the rise for agricultural and sideline produce generally and 2.1 times higher than the increase in overall retail sales prices during the same period. The big hike in grain procurement prices in 1979 led to several years of sustained growth in agricultural output, but after 1985 agriculture unexpectedly slumped back into a cyclical low, and to get agriculture to rebound we must resort once again to that magic weapon, price readjustment. It is apparent, therefore, that at this historical stage, in which agriculture

remains backward, it is impossible to keep grain prices stable, and the effort to make grain price stabilization the basis for general price stability is an impractical pipe dream.

B. Does price reform really mean that the government will have to fork out all the required funds? Some doubts regarding the argument that the government will not financially be able to cope with reform. Under China's traditional economic system, government finances have played the dominant role, with enterprises assuming only bit parts. Although this system has overcentralized financial resources, it has overcentralized risk even more. For whether enterprises make or lose money and how much reform costs them make little difference to enterprises themselves but have a big impact on government finances. Thus sufficient government financial strength is a crucial prerequisite for reform. In this respect, concern about government ability financially to cope with reform is well founded. However:

1. Economic restructuring has already begun to dismantle the centralized system and to raise enterprises up to the status of independent entities, which is to say that financial decentralization has become an irreversible trend. So the burden of financing price reform should not continue to fall entirely to the government; the elements that ought to be borne by enterprises should be transferred to enterprises, and the elements that ought to be borne by consumers should be transferred to consumers. If reform takes this approach, the government's financial burden will be limited and should not be unsustainable under normal conditions. Even when the cost of reform exceeds government financial resources, all that is likely to occur is a 1-2 year budget deficit, so any reform can be sustained if we are willing to sacrifice 1-2 years of development.

2. As to grain price reform specifically, the claim that the government's financial burden will be a drag on the reform simply does not wash. Once grain procurement prices are raised, the government's financial burden will increase whether subsequent reforms are implemented or not. Grain procurement and sales prices have been upside down for 10 years, costing the government a total of 150 billion yuan in subsidies over the entire period, the equivalent of a good year's total revenue intake. If we turn procurement and sales prices rightside up in a timely fashion, enterprise burdens might rise a little, as will prices, and some enterprises may even lose money, causing government revenues to fall. However, since the price must be paid anyway, straightening prices out sooner will bring stability quicker, so in terms of the time factor, the earlier we move, the better. The most important feature of the recent regional reforms is that they reordered prices, spread the burdens out level by level, and thus reduced government financial burdens to various degrees.

C. How can we best protect consumers' interests? Some doubts regarding the claim that consumers will not be able to cope with price reform. Some comrades argue that

reform must ensure not only that consumers' living standards remain unimpaired but must improve and that, since consumers are unaccustomed to dealing with risk, reform must not proceed too rapidly and should effect fundamental change only when consumers have learned to cope with risk. A number of points need to be examined concerning these claims. First, price reform is merely a readjustment of economic interests and returns and cannot, by itself, increase the wealth of society. Thus, for consumers, the best reform can do is to ensure that living standards do not fall; reform cannot guarantee improvement in them. Improvement in personal income and consumption derives from economic growth, so it would be in consumers' best interests to accelerate reform. Second, anyone living in a market economy must assume his own risks. China's urban residents lived under a market economy for many years and experienced all sorts of risk prior to liberation and cannot have lost all of their ability to deal with risk after being spoiled by a welfare system for a mere 30 years. Third, urban residents comprise only a small part of China's total population and are supposed to share equal status with the 800 million people who live in the countryside. These 800 million rural folk have long had to put up with risk and have often endured tremendous losses. So it would be unfair to continue sacrificing their interests and the interests of the entire nation for the sake of 200 million people.

III. A Critical Reexamination of the Past 10 Years of Reform

A. Theoretical deviation often fetters practice. China's reform effort has been under way for 10 years, but no reform, whether enterprise, fiscal-financial, price or wage, has yet succeeded in resolving the key problems in each area. This failure is closely related to the many difficulties and deviations that plague the area of theory. As for price reform, theoretical errors and arbitrary decision-making have caused us to let one golden opportunity after another slip through our fingers. This is also true with respect to price reform, for the following reasons. (1) From 1978 to 1986, the per capita income of urban residents rose 1.62-fold, an average of 12.8 percent a year, or 82.5 percent when adjusted for inflation. This great improvement in personal income created conditions that would have been advantageous to grain price reform. (2) Although government finances and enterprises were weak during the first few years of reform, both showed great improvement after 1984, which demonstrates that both were able to cope with reform. (3) This is the third readjustment of grain prices since the founding of the CPR. The first one, from 1961 to 1964, took 3 years to reorder procurement and sales prices; the second, 1965-1966, required only 1 year to set prices right. But this one, which began in 1979, has been under way for 10 years, yet procurement and sales prices are still upside down. Such prolonged inversion of prices is unprecedented.

B. Blunders in grain price reform have caused serious losses and difficulties for the nation. First, the mistakes have increased government financial burdens. Grain

price subsidies over 10 years have created losses equivalent to a year's revenues and directly affected the state's ability to fund economic development, especially its ability to invest in agriculture. Second, mistakes have delayed reform. The delay in grain price reform has helped slow fiscal reform and prevented grain trading organizations from being invigorated. Moreover, the overly low price of grain has created contradictions between regions, prompting regions to attempt autarky, restrain trade, and the like. Third, mistakes have helped distort consumption patterns. Cheap grain has caused the share of expenditure on grain in urban residents' total consumption outlays to decline steadily, allowing some of the money that should have gone to grain to chase other consumer goods, especially high-end products, thus exacerbating contradictions in supply and demand. Fourth, the mistakes have caused agriculture to continue to undergo cyclical ups and downs, which fact is not only inimical to agricultural development but is bound to have an adverse effect on the national economy during its next cycle. Fifth, the mistakes have made it necessary for reform to pay a higher price in terms of inflation. The advantages gained from the 1979 price hike have already dissipated, and to stimulate expansion of grain output we will have to make another big boost in procurement prices. Thus efforts to reorder procurement and sales prices will have to take place at an even higher price level, which is bound to have a big impact on prices generally.

C. The past is past; the key now is to focus on the present. I believe that, whether viewed from the successful experience of the recent regional reforms or macroscopically, the time has come to consider attempting thorough resolution of the grain price problem. (1) Economic restructuring has reached the stage at which a series of key reforms is required, and the grain price problem must be solved together with other key problems. (2) Agricultural production has reached a cyclical low, so this is a good time to solve grain price and agricultural problems, for a reordering of grain prices would produce better results now than when agriculture is on the upswing. First, the move would provide a greater stimulus to agricultural production now than later. Second, if effected now, the move would occur at a higher price level, and grain prices would settle down more easily as agriculture grows during its upswing, grain subsidies and prices of commodities related to grain subsidies thus would be easier to stabilize, and all of this would facilitate industrial development.

National Cotton Procurement

40060204d Beijing JINGJI RIBAO in Chinese
20 Dec 88 p 1

[Excerpt] [passage omitted] As of 10 December, China had procured 3,108,800 tons of ginned cotton, fulfilling 71 percent of the procurement plan, a decrease of 8 percent from the same period in 1987. [passage omitted]

Rural Finances in Third Quarter of 1988

40060196 Beijing ZHONGGUO NONGCUN JINRONG
[CHINA'S RURAL FINANCES] in Chinese
No 22, 16 Nov 88 p 48

[Text]

Balance Sheet of Agricultural Banks

Unit: 100 million yuan

Item	Total	Compared to End of 1987
Balance	4,385.01	577.15
Deposits	1,531.21	43.92
Industry	32.66	7.19
Commerce	262.08	40.38
Rural Enterprises	66.11	11.83
State Agriculture	90.37	-4.28
Collective Agriculture	14.56	2.22
Credit Cooperatives	144.47	-141.04
Towns	535.64	109.45
Other Deposits	385.32	18.17
Self-owned Funds	243.77	9.40
Other	2,610.03	523.83
Balance	4,385.01	577.15
Loans	2,422.46	119.30
Industry	157.47	23.99
Commerce	1,300.99	-87.74
Fixed Assets	53.46	6.58
Rural Enterprises	417.04	67.35
State Agriculture	141.72	30.58
Collective Agriculture	88.74	16.68
Rural Households	108.70	29.44
Credit Cooperatives	49.38	12.92
Subsidies for the Poor	23.50	10.03
Other Loans	81.46	9.47
Cash	44.07	0.74
Other	1,918.48	457.11

Balance Sheet of Credit Cooperatives

Unit: 100 million yuan

Item	Total	Compared to End of 1987
Balance	1,882.06	263.53
Deposits	1,328.41	103.20
Collective Agriculture	86.47	-3.40
Rural Enterprises	126.52	21.82
Rural Households	1,085.98	80.26
Other	29.44	4.52
Self-owned Funds	107.98	7.43
Other	445.67	152.90
Balance	1,882.06	263.53
Loans	1,072.69	301.34
Collective Agriculture	87.56	23.05
Rural Enterprises	458.81	99.50
Rural Households	510.71	170.70
Other Industrial,	15.61	8.09
Commercial Industries		
Transferred to Banks	405.06	-146.80
Other	404.31	108.99

Anhui Agricultural Investment
40060204e Beijing NONGMIN RIBAO in Chinese
13 Dec 88 p 1

[Summary] In 1989 Anhui Province will increase agricultural production funds by 200 million yuan. The provincial government will allocate 90 million yuan of provincial revenue to develop agriculture; renovation of small chemical fertilizer plants and support for poor counties will each account for one-third of this amount, two-thirds will be used to construct water conservancy projects. The provincial government will raise new funds by using taxes on rural enterprises, private enterprises, collective industrial and commercial households, and land for agricultural development. After renovating small chemical fertilizer plants, Anhui estimates chemical fertilizer output will be

3,936,000 tons in 1989, an increase of 6.12 percent over 1987. Estimated pesticide output for 1989 is 4,740 tons, an increase of 9.3 percent over 1988.

Fujian Bank Supports Fertilizer Enterprises
40060217b Beijing JINGJI RIBAO in Chinese
27 Dec 88 p 1

[Summary] From January to November 1988, the Fujian Industrial and Commercial Bank provided more than 300 million yuan in loans to 58 chemical fertilizer and pesticide enterprises, a 70 percent increase over the same period in 1987. From January to November these 58 plants produced 377,700 tons of fertilizer and 4,130 tons of pesticide, increases of 12,300 tons and 567 tons respectively over 1987.

Characteristics of Country's Legal System in Initial Stage of Socialism
40050135 Beijing FAXUE YANJIU [STUDIES IN JURISPRUDENCE] in Chinese
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[Article by Liu Zhaoxing 0491 0340 5281 and Li Lin 2621 2651: "Establishing a Legal Society"]

[Text] The Institute of Basic Legal Theory of the China Law Society held its annual conference at Zhuhai Shi from 28 to 31 May 1988. Over 80 experts and scholars from all over the country had a heated exchange on some theoretical issues in the building of a legal order in China in the initial stage of socialism. The main points of discussion are summarized as follows:

1. Major Characteristics of China's Legal System in the Initial Stage of Socialism

During the discussion, the experts could not agree on what constituted the major characteristics of China's legal system in the initial stage of socialism. Broadly speaking, there are four points of view: In the first opinion, the major characteristics of China's legal system at the present stage are: 1) Diversity, that is, the existence of several legal systems within the country, an inevitable outcome of the "one nation, two systems" policy; 2) Impurity; 3) Imperfection and incompleteness. The former refers to the quality of legal adjustment, the latter the quantity of such adjustment; 4) Transitional.

In the second opinion, "dualism" is the characteristic of the legal system in the initial stage of socialism. Dualism means: 1) coexistence between "the rule of man" and "the rule of law;" 2) there is a law we can follow on a majority of issues but not on others; 3) some people act in accordance with the law, while others ignore the law or replace it with power or his word; and 4) rights and obligations go hand in hand in some circumstances but are divorced from one another in other situations.

In the third opinion, the characteristics of the legal system in the initial stage of socialism are: 1) remedial quality. Within the framework of the four cardinal principles, we must absorb and inherit the tradition and experience of capitalist democracy and legality in earnest, improving and adapting them to our use, in order to make up for the fact that there was no capitalist democracy or legality in old China before liberation; 2) transitional nature. The transition is from class struggle as the central task to economic and democratic construction as the central task, from the rule of man to the rule of law, and from an immature, incomplete legal system to a mature and complete one; and 3) complexity, manifested primarily in the conflicts and confusion between the old and new systems as one gives way to the other.

In the fourth opinion, the legal system in the initial stage of socialism has these characteristics: 1) It is a socialist legal system that has developed amid backward productive forces and an underdeveloped commodity economy; 2) It is a legal system centered on economic construction; 3) The economic basis of the legal system in the initial stage of socialism is a multitude of ownership systems dominated by public ownership; 4) It is a legal system that shares a high degree of interdependence with a fledgling socialist democracy; 5) It is a dual legal system; and 6) It is a legal system established at a time when feudal despotism is still far from being eradicated.

Some experts point out that Chinese law in the initial stage of socialism has eight major characteristics: 1) The point of departure and principal criterion is whether something benefits the development of productive forces; 2) The law must uphold the nature of socialism, on the one hand, and proceed from reality in the initial stage of socialism, on the other; 3) The law must serve reform and do its best to advance the commodity economy; 4) The law must reflect and protect the legitimate interests of interest groups and handle the conflicts and disputes between them properly; 5) It must safeguard and expedite the growth of socialist democratic political institutions; 6) The basic trend in legal development at present is to shift from relying on policies to relying on the law; 7) The legal system will gradually be made complete; 8) "One nation, two systems, and three legal systems" will remain the basic form in China's legal system for a long time to come.

2. Basic Appraisal of a Decade of Legal Development (1978-88)

China's achievements in the establishment of a legal order since the 3d Plenum of the 11th CPC Central Committee are the focus of world attention. But conspicuous problems and difficulties remain. How should we interpret this period of our history? What have we learned from a decade of legal work? It was with these questions in mind that scholars pondered long and hard on the past decade of legal development in China.

1) Basic Evaluation of a Decade of Legal Development. The first question that must be answered is this: How and from what angle should we evaluate it? These are the scholars' viewpoints: 1) On the whole, substantial progress has been made in the past 10 years and the achievements have been quite remarkable. Yet if we look at each individual part, we will notice some problems that cannot be ignored and must be resolved quickly. 2) Others argue that we cannot simply talk about a decade of legal development in general terms. Instead, we should divide it into separate stages and evaluate them individually in light of the actual social conditions prevailing at the time. 3) Yet others contend that the decade of legal development can be looked at and examined at different levels and in different ways. 4) Then there are those who believe that we should divide the legal system into different stages and see what the

decade of legal development has done in each. The consensus among conference participants is that, however, and from whatever angle we evaluate the decade of legal development, we must do so in light of the theory of the initial stage of socialism and the idea of "one center, two fundamental propositions."

It should be said that the past decade was the golden era in legal development in all those 40 years since the People's Republic was founded. During the last 10 years, China has tentatively put together a legal system based on constitutionalism. The problem that there is no law one can follow is gradually being resolved. (Some people may not agree with the judgement that the rudiments of a legal system are now in place in China.) Law enforcement authorities largely manage to act in accordance with the law. Legal tools are now being used quite effectively in social life, economic life, and comprehensive treatment. The dissemination of legal education has made the rule of law acceptable to a majority of citizens. Legal supervision is now having an effect that all can see. In short, the achievements of the decade of legal development are unprecedented.

Conference participants note that there are three reasons why the decade has been so successful. First, top leaders on the CPC Central Committee have begun to take the law seriously in their thinking. Second, a force has been generated in society by 40 years of national reflection on the legal system. Third, the shift in the focus of national work, reform, and the policy of opening to the outside world have given legal development a powerful boost.

2) Major problems about the Decade of Development

Conference participants note that despite substantial progress in the decade of legal development, many problems remain due to the fact that China is in the initial stage of socialism; that socialism emerged from a semi-colonial, semi-feudal society; that feudal autocracy had a long history in China; that the influence of feudal autocracy and the "special privilege" mentality are deep-rooted; that society lacks a democratic legal tradition; and that legal development in China has been severely hampered and destroyed by "left" ideology and policies since the PRC was founded.

1. Subjectively, the concept of law has not taken hold in public consciousness and the rule of law has not struck root among our leaders. The idea that power can supplant the law still rears its ugly head. 2. Law-making is uncoordinated with and divorced from reality. It has fallen behind practice. The techniques of law-making have grown obsolete and the process of law-making is chaotic. 3. Legal adjustment in democratic politics does not dovetail with legal adjustment in economic operations. 4. Compared to law-making, law enforcement is the weaker link in the decade of legal development. 5. Not enough has been done to subject the state's decision-making echelons to legal supervision and impose

restraints on their power. 6. The caliber of personnel falls short of the demand of legal development. 7. Research on legal theory is not systematic, policy-related, or practical enough.

3. The Short-Term Goals and Strategy of Building a Legal Order in the Initial Stage of Socialism

The building of a legal order faces two major tasks both determined by national circumstances in the initial stage of socialism and the nature and characteristics of the legal system, namely the self-improvement of the socialist legal system and its functions in the initial stage of socialism. These two tasks are complementary and inter-related. If the legal system is not self-improving and cannot meet the demand of reform, of opening to the outside world, and of developing socialism, it cannot fulfill its proper role in the initial stage of socialism. Similarly, if the legal system does not serve socialist modernization in the initial stage of socialism, it will be useless no matter how perfect it may be. The scholars discussed the short-term goals and development strategy of legal construction in the initial stage of socialism from these two perspectives:

1) The short-term goals of legal development—generally speaking, reform and development within this century are the short-term goals of the self-improvement of the legal system. So-called reform requires us to evaluate the entire legal system and measure every part of it against the basic criterion: is it good for the development of productive forces? Any system or institution that is not consistent with the demand of socialist development in the initial stage of socialism must be reformed. Certain laws and statutes must be amended or abolished. Some principles and measures must be changed or done away with. So-called legal development requires us to intensify law-making, improve law enforcement and law compliance, and perfect the mechanisms of law protection, all in light of China's national circumstances in the initial stage of socialism and in accordance with the basic principles of building a legal order. The aim is to make sure that there is a law one can follow in every situation in political, social and economic life, that all laws are complied with, that laws are strictly enforced, that all law-abiding citizens are protected, and that anybody who breaks the law will be investigated.

The scholars differ in what they think should be the short-term goals of the development of a legal order in China. In one opinion, short-term goals should include: 1) step up law-making, focusing on economic law-making and administrative law-making, and create the rudiment of a legal system based on constitutionalism; 2) improve the law enforcement system and make sure that judicial authorities carry out their responsibilities independently and enforce the law strictly so that they operate in accordance with the law. Specifically, our effort to improve the administrative law-enforcement system should emphasize the following at the moment: First, hive off those organizations that exercise the

power to impose administrative penalties and confer on them the authority to exercise such power independently in accordance with the principle that judicial organs discharge their responsibilities independently and that auditing organs audit independently in accordance with the law. Second, explicitly write into law the organizational setup and personnel establishment of administrative law-enforcement organs, along with the limits on their power to impose administrative penalties and the procedures through which such power is to be exercised. Third, step up the training of law-enforcement personnel and improve their political and professional caliber. Regarding law enforcement by judicial organs, the focus of reform at the moment should be as follows: A. Make an earnest effort to separate the party, on the one hand, from courts and procuratorates, on the other. Improve the judicial leadership system. B. There should be a civil service system for judicial organs to ensure and enhance the quality of the judicial corps. C. Reform the way lawyers practice their trade. Establish and develop a system under which lawyers can practice law either cooperatively or separately. a) Upgrade the work of township judicial assistants and township legal service stations. b) Beef up judicial supervision and extend procuratorial supervision to civil, economic, and administrative litigation. c) Enhance the concept of law among citizens and encourage them to apply the law and observe the law conscientiously. d) Launch in-depth legal studies and establish a modern and scientific body of legal thinking.

A second opinion holds that there are two aspects to the short-term goals of building a legal order: the creation of a body of legal theory and the establishment of legal mechanisms. On the theoretical level, the short-term goals are : 1) Examine the relationship between democracy and legality multi-dimensionally and from every angle. Study the value, functions, status, and role of the present legal system. 2) Examine the role of the legal system in achieving the "three-step process" of the party's economic development strategy; 3) Examine the close relationship and coordinated development between the establishment of a legal order, on the one hand, and reform and opening to the outside world, on the other. As for the establishment of legal mechanisms, the short-term goals are: 1) intensify legislative work to institutionalize and legalize national life gradually; 2) strengthen all feasible legal measures that will bring about social benefits. Make major efforts to foster a legal consciousness in the public mind and cultivate the habit of operating in accordance with the law; and 3) optimize legal services.

Yet a third opinion is that apart from self-improvement, a short-term goal of the building of a legal order is choosing its roles in modernization, including mainly the following: 1) consolidate and develop a stable and united political situation; 2) gradually create a new order suited to the socialist commodity economy; 3) safeguard and expedite the intensification of economic structural reform in the present stage; 4) safeguard the launching

and progress of structural political reform; 5) crack down on criminal behavior that jeopardizes reform and destroys the socialist order. Punish corruption, degeneration, the offering and taking of bribes, the abuse of public office for private gains, and other criminal behavior; 6) and resist the corrosive influence of the degenerate thinking of the exploiting class and further the building of a spiritual civilization.

2) The Strategy of Building a Legal Order

Most scholars agree that the strategy of building a legal order must be based on China's basic national conditions in the initial stage of socialism. But there is no consensus on the substance of such a strategy.

Some scholars believe the development strategy in the initial stage of socialism should: 1) oppose feudalism and eliminate the breeding ground of bureaucratic capitalism; 2) protect the socialist economy and other legitimate economic components; 3) moderate class conflicts and reconcile the interests of different social groups; and 4) truly realize the principle that all are equal before the law.

Others point out that the strategy of building a legal order in the initial stage of socialism should be to fulfill these four major functions of a legal system: 1) safeguard and promote the continuous growth of the socialist economy; 2) safeguard and promote socialist democratic politics; 3) effectively maintain social stability and unity, backed by the coercive power of the state; and 4) expedite the building of a socialist spiritual civilization vigorously.

Yet others focus on the ideological strategy of building a legal order and argue that the only way to ensure the smooth progress of development and reform and perfect democracy and the legal system is to unshackle ourselves ideologically and establish a new set of legal thinking. The ideological strategy of developing a legal order consists essentially of the following: 1) Replace the concept of law based on small scale production and the product economy with one suited to a socialist commodity economy. 2) Put an end to the emphasis on the rule of man and the disdain for the rule of law. 3) Put an end to the stress on social status and privilege and the disdain for the concept that everybody is equal before the law. 4) Put an end to the stress on obligations and the slight for rights. 5) Put an end to the notion that citizens but not the government must obey the law. 6) Discard the idea that "the law is simply a tool of class struggle." 7) Put an end to the emphasis on criminal sanctions while ignoring civil and economic adjustments. 8) Put an end to the emphasis on policies, political methods, and administrative methods while down-playing the law and legal means. 9) Overcome "legal nihilism" and establish the authority of the law. 10) Advance the theory of "two kinds of contradictions" and propagate interest-group pluralism. 11) Put an end to the emphasis on state power

and the belittlement of human rights. Strengthen the concept of people power. 12) Put an end to the idea of the law as a defense against the people. Enhance tolerance for democracy.

4. Building a Legal Order in Special Economic Zones in the Initial Stage of Socialism

Conference participants analyze the building of a legal order in special economic zones [SEZ], noting that it took place amid these historical conditions: backward productive forces, an underdeveloped commodity economy, an incomplete legal system, and the far-reaching influence of feudal autocracy.

1) The building of a legal order in SEZ's must be expedited. This is dictated by five major reasons: 1) The current state of the legal system in SEZ's has not kept pace with the development of an export-oriented economy. So far there is no SEZ economic law that can serve as a basic code. 2) Legal development in the SEZ's has fallen behind reform. For example, legislation in such areas as prices, circulation, foreign trade, and banking, which are closely related to the economic system in the zones, is quite skimpy and even nonexistent. 3) In the area of law enforcement, the law is sometimes supplanted by power and money. 4) What is really needed for the development of SEZ's is a good investment climate, including a legal climate. 5) The development of SEZ's must proceed in accordance with common international practices. Such practices should be written into law.

2) Characteristics of the legal system in SEZ's as an important ingredient of China's socialist legal order in the initial stage of socialism, the legal system in the SEZ's is similar to and also different from the legal system in the rest of the nation outside the zones. Its unique features are these: 1) Because a SEZ utilizes foreign capital, its legal system essentially deals with foreign relations. 2) The development of a legal system in a SEZ should focus on the institutionalization and legalization of economic management in the zone. 3) The legal system of a SEZ must comply with the general principles of legal development, on the one hand, and proceed from the reality in the zone, on the other. 4) Within an appropriate scope and in functional terms, the legal system in a SEZ is uniquely regional, open, and experimental. It is also intensively economic.

3) Major experiences in the building of a legal order in SEZ's make the building of a legal order permeate the entire process of reform and development. Combine central law-making with local law-making, with emphasis on local law-making as authorized by the center. Handle properly the relations between what is "special" and what is "not special" in the development of a legal system in the zone. Review each practical experience in the zone, writing it into law when it matures. Combine this with "advance law-making." Establish good legal organs to offer such services as notarization, the issue of

visas, and economic contract arbitration. Establish a crime reporting center and supervisory organizations to exercise oversight over the assets of leading officials and make known to the public government revenues and expenditures.

4) Short-term goals of the building of a legal order in SEZ's. A. Right now the cities where SEZ's are located have no local people's congress. Such a congress should be set up or else the legitimacy of the people's government would be called into question. B. Designate Shenzhen and other SEZ cities as "larger cities" as soon as possible and authorize their people's congresses and their standing committees to make laws of a local nature. C. Gradually formulate a comprehensive body of laws and regulations for the zones. Make a major effort to draw up a "SEZ Law of the People's Republic of China" to form the basis of a body of laws and regulations on SEZ's, including every aspect of the zone involving dealings with foreigners. D. Reform the judicial system in the zones. Establish a specialized economic court in each zone with broad powers to settle economic disputes involving a foreign party. Establish a unified civil arbitration organ in each zone whose jurisdiction should include domestic cases as well as cases involving foreigners. The rulings of the arbitration organs should have final binding authority. Improve the system of lawyers, with "individual" lawyers and "cooperative" lawyers. E. Introduce a comprehensive system of legal supervision. Establish more "crime reporting centers" even as administrative, judicial, and social supervision is stepped up. F. Apply a variety of effective tools tailor-made to suit local conditions in order to strengthen the citizen's legal consciousness so that he will study, understand, apply, and observe the law conscientiously.

5. The Reform and Development of a Basic Legal Theory

Basic legal theory is out of synch with the current reality in the building of a legal order. The need for reform is urgent. The following points are involved:

1) How to assess the current state of basic legal theory. There are generally two points of view among the experts. One is that since the 3d Plenum of the 11th CPC Central Committee, progress has been made in building up a body of basic legal theory. In the process, a series of major erroneous theories have been rectified, eg., the rule of man superseding the rule of law, policies superseding the law, the repudiation of the notion that everybody is equal before the law, the rejection of the continuity of law, and the argument that law is only an instrument of class struggle. All in all, the basic legal theory is consistent with Marxism-Leninism, but there remain many theoretical points that need to be reexamined, reformed, and elaborated. We must proceed from reality in the initial stage of socialism, examine new issues, and make a fresh theoretical summation. The other viewpoint is that the current body of basic legal theory remains mainly traditional, rigid and idealistic.

Essentially it stresses the idea that law is a special phenomenon of class society, a product and a tool of class struggle. Law is seen as synonymous with "autocracy" and "suppression." In a fundamental sense, therefore, such thinking has never been a part of Marxism to begin with.

2) Approaches to the reform of basic legal theory. A common wish among legal scholars is that basic legal theory be reformed. But how? Or, to put it differently, along what line? Which reform approach should we take? There is no consensus among conference participants on this. Their views can be summarized as follows:

First, there are those who call for "reforming the substance." These scholars believe that the main problem with China's basic legal theory is imperfect substance. Thus reform should focus on improving the substance, leaving the basic framework untouched.

The second group consists of experts who suggest that both substance and framework be reformed. The reform of basic legal theory, it is argued, should consist of the reform of the framework as well as substance, especially the former.

The third viewpoint is held by those who argue for a "complete overhaul." These scholars point out that the current basic legal theory is confronted with a serious

crisis. Mere tinkering within the existing framework would not do at all. We must jettison the Soviet and Chinese outdated and idealistic theories and bring about a complete "overhaul."

The fourth viewpoint calls for "methodological reform." Its proponents believe that China's basic legal theory needs to be reformed, and the key to reform is a breakthrough in methodology. Only by using a brand new methodology to examine, review, and draw conclusions from our experience in the building of a legal order and absorb positive foreign experience can we bring about reform even as we keep the old. Accordingly, they suggest that the methods of sociology, systems theory, and the science of culture be introduced into the realm of legal research.

The fifth viewpoint is "conceptual reform." Its proponents believe that "basic legal theory" should be replaced by "jurisprudence," to be followed by a series of conceptual changes, including substituting dogmatic and idealistic value standards with reasonable utilitarian value standards, shifting our research from morality to case law, from substance to procedures, from impractical spiritual research to all-embracing social research, and from single-method isolated research to multiple-method comprehensive research. This is the only way to truly reform China's basic legal theory.

Post-Retrocession Plans for Hong Kong

Legislature

40050141c Hong Kong TA KUNG PAO in Chinese

22 Nov 88 p 2

[Article: Development of Political System in Hong Kong
Special Administrative Zone

Development of Political System in Hong Kong Special Administrative Zone

Legislative Session General Election Participants	First Session (2 Years)	Second Session (4 Years)	Third Session (4 Years)	Fourth Session (4 Years)	
1. Local General Election	15 People (27%)	25 People (38.5%)	40 People (50%)	40 People (50%)	General Election by the vote of the Hong Kong electorate to decide whether officials should be generated by one-man one-vote, the director of administration for the fourth session (and all subsequent sessions), and the fifth legislative session (and all subsequent sessions)
Elected by industrial, commercial, and banking circles functional bodies	16 People (29%)	16 People (24.5%)	16 People (20%)	16 People (20%)	
Elected by functional bodies of professional personages	12 People (22%)	12 People (18.5%)	12 People (15%)	12 People (15%)	
Elected by functional bodies in labor, social services and religious walks of life	12 People (22%)	12 People (18.5%)	12 People (15%)	12 People (15%)	
	Total 55 People	Total 65 People	Total 80 People	Total 80 People	
Term	First Session (5 Yrs) (1997-2002)	Second Session (5 Yrs) (2002-2007)	Third Session (5 Yrs) (2007-2012)		
Method of election of director of administration	Generated by 400-man chosen committee	Generated through election by broadly representative 800 man election committee	Generated through election by broadly representative 800 man election committee		

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